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Board of Directors
Thirteenth Annual Study
February 1986

KORN/FERRY INTERNATIONAL

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KORN/FERRY INTERNATIONAL
THIRTEENTH ANNUAL BOARD OF DIRECTORS STUDY

Introduction

This has been a very difficult year for directors, and it may be just the beginning. Based on the results of our Thirteenth Annual Board of Directors Study, we think that corporations are going to find it much harder to attract and retain qualified directors than they do today.

Let's look at the disturbing facts reported:

1. Sixty percent of the companies polled said that recent court decisions affecting overall responsibilities of corporate boards are creating potentially dangerous precedents, inhibiting a company's ability to attract new directors. Thirty-four percent said they thought recent court decisions would hurt them in retaining existing directors.
2. Sixty-one percent of the companies believe that the current emphasis on director liability is not a temporary phenomenon.
3. Nearly 62 percent of the chief executive officers polled say they will reduce the number of boards on which they serve. And 96 percent said they will reduce the number of directorships they accept because of increased liability. Sixty-nine percent said they would limit their board acceptances because of exposure to public censure, while nearly 67 percent said a directorship just takes too much of their time.
4. Not surprisingly, 52 percent of the companies polled reported that the sharp rise in directors' and officers' insurance premiums will make it more difficult to recruit high-level outside directors. In fact, companies surveyed said they are paying, on average, 362 percent more for D&O coverage this year than last, and some companies cannot get D&O insurance protection at any price.
5. Finally, companies reported that one out of five qualified candidates turned down an invitation to serve as director.

From a company's perspective, this is particularly stressful news. Why? Because the board can no longer play a passive role in corporate governance. Today, more than ever, the board must assume an activist role—a role that is protective of shareholder rights, sensitive to communities in which the company operates, responsive to the needs of company vendors and customers, and fair to its employees. And if directors are not willing to initiate appropriate action, we have learned from recent experience that corporate constituent groups (i.e., shareholders) will take action into their own hands and do everything within their power to protect their interests.

On the flip side of the coin, one has to ask why anyone would want to be a director. This seems to be the most frequently asked and one of the most difficult questions to answer.

Directorships Politely Refused

Increasingly, board invitations offered to outsiders are politely refused. Excuses come in many forms. Sixty percent say the time commitment board membership demands is too great. Twenty-nine percent say they already sit on too many boards. Twenty-one percent say new directorships represent a conflict of interest. But the truth, we believe, is that more and more executives are getting over the initial flattery of the invitation and asking themselves, "Who needs this?"

In addition to all the potential liability a director faces, companies are asking them to spend what seems to be an extraordinary amount of time in order to perform the duties of the board. Our latest survey shows that the average director spends 114 hours a year for each board seat he or she holds; and for companies with revenues of $5 billion and over, the time is 145 hours.

Fees paid to directors seem insignificant when compared to the potential liability. In 1985 the average earnings reported for directors was $19,500, up from $18,800 in 1984. Directors of billion dollar companies were paid somewhat better, averaging $23,600, while directors of $5 billion plus companies were paid an average $25,900.

Put another way, the risks may not justify the rewards for serving. We predict the day is coming when there may well be an acute shortage of qualified outside directors, which, we think, will drive directors' fees up substantially.

Disquieting Issues and No Easy Choices

While we would like to look into a crystal ball and foresee the trends that may occur in the short term, that is obviously not possible given all the confusion in the marketplace. Moreover, we must consider some complex and troublesome questions.

- How will boards deal with increasing liability issues and lack of D&O insurance (or the escalating cost of D&O insurance)?
- Should companies consider a major overhaul of board fees to be more commensurate with increased director responsibilities?

- Should companies search for new sources of directors in order to fill the projected shortages stemming from the retirements and resignations we project?
- What can companies do to reduce the fear of becoming a director, while at the same time remaining accountable to their constituents?
- Should companies reduce the size of their boards?
- How can companies better manage their directors' time to maximize their role as board members? Should committees play an increasing role?
- What should corporate America do to communicate better and to avoid the need for legislative initiatives to protect their directors?

In conclusion, we really do not think that directors are becoming endangered, but the concern is very real, and industry must do something to halt the problem so that directors will provide the appropriate corporate guidance required of them by various constituents.

Lester B. Korn

Lester B. Korn
Chairman

Richard M Ferry

Richard M. Ferry
President

February 20, 1986

SUMMARY OF FINDINGS—THIRTEENTH ANNUAL STUDY

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 14 directors, an increase of one member over the average of 13 reported since our study's inception in 1973.

The largest boards are found among banks and other financial institutions, which now average 20 members, up from 19 members in 1984. Retailers showed a marked decrease in board size, down from the 16 directors reported last year to 13 directors as reported in previous years.

Smaller companies with revenues of under $200 million have an average of only 10 board members, while the largest companies—$5 billion and over—average 14 directors.

2. Inside Directors vs. Outside Directors (Table 1)

For the eighth consecutive year, corporations surveyed reported an average of four inside directors. Outside directors increased by one to an average of 10, indicating a continued strong and growing preference for outside leadership.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 2)

Eighty percent of this year's respondents reported that their chairman is also the chief executive officer, up from 77 percent last year. This combination of responsibilities occurs most frequently among retailers (89 percent) and among the larger companies, $5 billion and over (88 percent). Thirty-six percent of the respondents report that their chief executive officer is also their chief operating officer, a decrease from 42 percent in 1984.

4. Board Composition (Table 3)

Companies continue to draw directors from three primary sources: senior executives of other companies (82 percent), retired executives of other companies (68 percent) and academicians (55 percent). The average board seats five senior executives, well above the average of only one or two from other sources. Attorneys continue to decline as representatives on all boards as do commercial bankers. The "professional" director is represented on 28 percent of all corporate boards, a significant increase from 18 percent reported last year (Table 3A).

The number of boards seating a woman director remained constant at 45 percent. Representation by ethnic minorities declined slightly, from 26 percent reported in 1984 to 25 percent this year. While 45 and 25 percent of boards, respectively, report seating women and minorities, the total population of directors considered in the survey consists of an estimated four percent women and three percent minorities.

Both women and minority directors continue to come primarily from the ranks of academia and senior officers of other companies, but their representation has shifted with academicians leading significantly over outside senior executives (Table 3B).

For the first time, retailers report the highest number of women directors (62 percent), followed by banks and other financial institutions (61 percent). As in the past, banks and other financial institutions have the greatest number of minorities (52 percent).

Academicians, whose representation has increased steadily since our survey began, are widely sought as outside directors. Of all respondent boards, 55 percent report seating a member of academia.

5. Committees (Table 4)

The most prevalent standing committees in use remain audit (97 percent), compensation (82 percent), executive (78 percent) and nominating (59 percent) (Table 4A).

The use of the executive and nominating committees in particular can be correlated to company size. For example, the executive committee is less prevalent in smaller industrials (under $200 million)—66 percent compared with the overall average of 78 percent. And while 75 percent of the $5 billion-and-over companies have a nominating committee, only 36 percent of the smaller industrials report its use.

Of all companies that have a nominating committee, 22 percent report its active participation in the management succession process. Respondents cite the nominating committee as often as the executive committee as a participant in the management succession process. However, the compensation/personnel committee retains the predominant role in management succession. Of those boards that have a nominating committee, 64 percent report that the committee also plays a significant role in selecting new directors to fill board vacancies. This figure was up from 57 percent in 1984.

Thirty-seven percent of the respondents now have a benefits committee, up from 30 percent five years ago (Table 4A). The benefits committee is most common among smaller industrials (47 percent). The finance committee, on the other hand, is most often the province of the larger corporations. Fifty-one percent of the billion dollar corporations report its use as opposed to only 38 percent of all respondents.

Along with overall board representation, committee composition has also shifted to a greater reliance on outside directorship. The ratio of outside to inside directors, along with the average number of directors, has increased for the executive and public affairs committees with each gaining one member. The benefits committee has not only increased its number of outside directors by one, but it has also eliminated the presence of inside directors altogether. In addition to the benefits committee, audit and compensation committees continue to be composed entirely of outside directors (Table 4B).

The average number of committee meetings per year ranges from two to five. Finance committees met most frequently, at five times a year. Holding the fewest number of meetings at two per year were the nominating, corporate ethics and science/technology committees. The public affairs, benefits and audit committees met three times. The number of executive committee meetings increased to four among all respondents (Table 4C). It rose to seven meetings for banks and other financial institutions.

6. Compensation (Table 5)

The annual plus per-meeting fee remains the generally accepted form of compensation for outside directors, with 86 percent of this year's respondents reporting its use (Table 5A). This method is most widely used by banks and other financial institutions (90 percent).

As in the past, industrials with under $200 million in revenues lead all respondents in adhering to the annual fee only (20 percent). But overall, only 10 percent use this method, down from 14 percent in 1981.

At two percent, per-meeting fee only remains the most infrequent mode of compensation.

Annual Plus Per-Meeting Fee (86 percent of the respondents)

For all outside directors compensated on an annual plus per-meeting basis, the average earnings reported were $19,544, up from $18,800 last year, an increase of four percent, the same as in 1984. Compensation has risen 24 percent from the $15,660 average in 1981. During this five-year period, directors earning under $11,000 have decreased substantially from 27 percent to 11 percent. At the same time, the percentage of those earning $25,000 and over has more than tripled from seven percent five years ago to 24 percent in 1985 (Table 5B).

The $19,544 total average annual compensation for all companies comprises an annual fee of $13,629 and a per-meeting fee of $834, up from a $12,400 annual fee and a $724 per-meeting fee last year (Table 5B). As indicated, the per-meeting fee of $834 represents an increase of 15 percent in the past year.

As in the past, the larger the company, the higher the compensation. Directors of billion dollar industrial corporations earn an average of $23,601 (up from $23,300 last year); directors of the $5 billion-and-over companies earn an average of $25,926.

Industrials with under $200 million in revenues reported the largest five-year increase in compensation, rising 57 percent from $9,160 in 1981 to $14,426 in 1985 (Table 5C).

This year, the upper quartile average for all responding directors was $27,375 (Table 5C). The average upper quartile fees paid by billion dollar companies was $31,205.

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving an annual fee only increased 32 percent over the past five years, from $13,600 to $17,982 (Table 5D). This year's average annual fee of $17,982 was also eight percent higher than the average fee reported in 1984.

Per-Meeting Fee Only (Two percent of the respondents)

The smallest category, respondents who compensate for meetings only, reported an average per-meeting fee of $614, a dip from last year's average of $810, but well over the 1983 per-meeting fee of $514.

7. Committee Compensation (Table 6)

Eighty-seven percent of all participants and 90 percent of the billion dollar companies offer additional compensation to their outside directors for serving on committees (Table 6A).

Seventy-three percent of the companies surveyed pay their committee members a per-meeting fee only. However, only 57 percent pay the committee chairmen in this manner.

Alternatively, 28 percent of the chairmen and 10 percent of the members receive annual fees only for committee participation. The percentage of companies paying an annual plus per-meeting fee for members serving on committees has declined from 30 percent to 10 percent in the last five years. Fifteen percent of the committee chairmen receive both an annual fee and a per-meeting fee.

Among the companies that paid a per-meeting fee only, fees range from a low of $500 for banks and other financial institutions to a high of $813 among retailers. The overall average was reported at $616 per meeting and rose to $682 for the billion dollar companies. As expected, fees for chairmen were slightly higher and rose to an average of $657 for all responding companies and to $721 for billion dollar corporations.

8. Additional Compensation Information (Table 7)

Thirty-four percent of participants indicated that they increased compensation for their outside directors during the past year (Table 7A). This was a drop from 42 percent in 1984, and significantly less than the 52 percent that increased pay five years ago. Over the past decade, companies have increased fees an average 19 percent more than they had projected.

Companies that increased compensation in 1985 did so by an average of $2,777, slightly higher than last year's average of $2,710. The largest increase was posted by retailers, who increased board compensation by

$4,492 compared with $2,520 in 1984 (Table 7A). Twenty-six percent of respondents project an average fee increase of $2,304 for 1986.

Eighty-four percent of this year's participants now believe that outside directors are adequately compensated, up from 69 percent in 1984.

Not surprisingly, retailers, who registered the highest one-year gains in compensation, reported that 96 percent of their ranks believe directors are adequately compensated.

Twenty-three percent of all respondents have outside directors who receive special consulting fees, the same as last year.

Average total compensation for the single highest paid director at each company was $27,424 this year for all board services exclusive of any consulting fees, a 12 percent increase over last year's average of $24,440, and 33 percent more than the $20,600 of five years ago (Table 7C). Twenty-three percent of the largest industrial companies ($5 billion and over) compensate their highest paid outside director with payment in excess of $40,000. The upper quartile average for the highest paid directors is $41,539, up from $34,380 five years ago.

This year, 53 percent of respondents reported that their board chairman had primary responsibility for establishing board compensation, up from 38 percent in 1984. Twenty-eight percent said the entire board is responsible. Thirty-three percent state that the compensation committee plays a role in establishing remuneration for board compensation (Table 7D).

Benefits

The practice of providing benefits for directors in addition to cash compensation continues to grow in popularity. Accident insurance (49 percent), travel expense reimbursement for spouses (27 percent) and life insurance (23 percent) are the most common (Table 7E). Matching educational gifts showed increasing growth, rising to 50 percent from 40 percent in 1982, when respondents were first questioned. Travel expense reimbursement was provided by 96 percent of the respondents and director's liability insurance was provided by 93 percent in 1985 compared with 91 percent and 87 percent, respectively, in 1984.

The option of deferring board fees until retirement is offered by a majority of responding companies, 68 percent, compared with 60 percent in 1984 and only 44 percent five years ago. It appears that each year this option is becoming more widely accepted and put into practice. Even the smallest industrials (under $200 million) reported that 47 percent have an income deferral plan, up from 26 percent last year. Of the largest companies ($5-billion and over) 80 percent now offer the option of deferring fees.

In 1985, 26 percent of all respondents provided retirement benefits for board members. Thirty-seven percent of the billion dollar corporations included retirement programs compared with only 11 percent of companies with revenues under $200 million.

In all cases, length of board service was a primary factor in determining the extent of retirement benefits. As in 1984, the average length of service required to qualify was six years.

- Of the total number of chief executive officers responding, 29 percent believe outside directors should receive retirement benefits; 59 percent were not in favor of this option.

Stock Ownership

Eighty-one percent of all respondents and 84 percent of billion dollar companies stated that stock options should not be part of a director's compensation package. Nevertheless, about 75 percent of participating firms of all sizes believe that all directors should own some company stock. In fact, 94 percent of all outside directors do own company stock. The average number of shares owned by outside directors ranges from one to over 10,000 with an average of five directors per board owning from one to 1,000 shares of stock and an average of three per board holding more than 10,000 shares. Company size was not a factor.

Liability Insurance

Of the companies whose insurance policies were up for renewal in 1985, 68 percent responded that director liability insurance premiums were increased on an average of 362 percent (Tables 7F and 7H). Of the 26 percent that indicated there was no premium increase, a majority expect an increase when their present policy expires. Of all groups surveyed, a greater number of banks and other financial institutions experienced premium increases (78 percent), while insurance companies led all others in the percent of increase (431 percent). Twenty-seven percent of all respondents saw a decrease in total dollar coverage, which fell from $59 million to $34 million—a 42 percent drop (Tables 7G and 7H).

The decrease in total dollar coverage was greatest for retailers, who averaged a 55 percent decline (from $83 million to $37 million) compared with the 42 percent average for all respondents.

Nineteen percent of respondents are considering self-insurance. But for banks and other financial institutions, the figure stands at 32 percent.

9. Board Practices and Policies (Table 8)

Study respondents average eight regular board meetings per year (Table 8A). Financial institutions meet most frequently, averaging nine times per year. Although most meetings are held at corporate headquarters, 40 percent of the respondents reported holding at least one meeting at a branch subsidiary and 28 percent at a production site.

Time spent on board-related business, including time for review, preparation and travel in addition to meetings, continued to drop in 1985. Board time commitment fell from a 1984 average of 121 hours to a total of 114 hours this year (Table 8B).

Twenty-three percent of respondents reported devoting more than 130 hours to board-related activities.

Insurance board members increased the time spent on board activities from 111 hours in 1984 to 129 hours in 1985. The $5 billion-and-over corporations demanded 145 hours of their outside directors (Table 8B).

Overall, the larger the company, the more time devoted to board-related business.

Chairmen, predictably, spend considerably more time on board duties than their directors, devoting an average of 164 hours in 1985. Chairmen of retail companies reported a low of 107 hours, only two hours more than their directors' average of 105 hours. The chairmen of billion dollar corporations reported working an average of 180 hours. Time spent on board duties rose to 204 hours among the chairmen of the $5 billion-and-over companies.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average of $173 per hour this year, up from $155 last year. The average number of hours devoted to board activities decreased in 1985, while average director compensation for the year increased. As in 1984, the highest hourly rate, $211 per hour, went to directors of retailing companies. Insurance companies paid the lowest, $136 per hour.

Eighty-one percent of respondents have a mandatory retirement age for directors, up from 73 percent last year. Only 56 percent of companies with revenues under $200 million have a mandatory retirement age, as opposed to 89 percent of the billion dollar companies and 93 percent of the $5 billion-and-over companies. For the 10th consecutive year, the average retirement age for outside directors remains 70. The average retirement age for inside directors is 67 and for board chairmen, 69.

10. Locating Outside Directors (Table 9)

Thirty-two percent of responding companies reported that outside directors resigned from their boards during the past year. Retirement was again the major reason for resignation, but this year it was cited by only 55 percent of the companies surveyed, down from 71 percent in 1984. There was an increase to 16 percent in the number of companies citing time demands as a reason for director resignation. The potential for conflict of interest was also cited by 16 percent. Companies experiencing the most director resignations were banks and other financial institutions (44 percent) and retail companies (43 percent).

Fifty-one percent of the respondents added one or more new outside directors to their boards during the past year compared with 44 percent in 1984. Twenty-one percent named new inside directors (Table 9A).

Board vacancies continue to be filled predominantly through recommendations by the chairman (81 percent) and by other board members (77 percent). Sixty-four percent used the nominating committee to identify and select new directors, up from 57 percent in 1984 (Table 9B). That percentage rose to 79 percent among the billion dollar corporations and to 80 percent among $5 billion-and-over corporations, an increase from 65 and 74 percent levels reached, respectively, in 1984.

Recommendations of other corporate officers (37 percent) and referrals from executive acquaintances (11 percent) continue to decline. On the other hand, the use of executive search firms is on the rise, with 11 percent of total respondents now using such services compared with six percent reported five years ago (Table 9B). Of the billion dollar companies, 15 percent used executive search to find new directors.

Ninety percent of the respondents cited broad management experience as the primary consideration for selecting prospective directors. Specific industry experience and strong financial skills were cited as important qualities by 33 percent and 32 percent, respectively. Personal stature was mentioned by 58 percent of the respondents, second only to broad management experience.

Twenty percent of this year's respondents stated that board candidates declined to serve on their boards, up from 17 percent last year (Table 9D). Banks and other financial institutions experienced the most refusals (24 percent).

Time commitment, cited by 60 percent of the respondents, is the predominant reason given for declining an invitation to serve on boards, up from 56 percent in 1984, but less of a factor than in 1981, when it was the primary cause for 84 percent. For companies with revenues of $5 billion and over, 72 percent mentioned time commitment as the primary reason for declining to serve on boards. A conflict of interest was cited by 21 percent of the respondents compared with 17 percent in 1984 (Table 9C).

11. Board Issues (Table 10)

When asked to rank the relative importance of the issues facing corporate boards today, respondents again ranked financial results as the single most significant issue (cited by 56 percent as ranking first, up from 50 percent last year). Seventy-six percent ranked it first or second and 83 percent ranked it among the top three most important concerns. Strategic planning was second, rated among the top three issues by 63 percent of respondents.

The other most significant issues include financing/capitalization (ranked as first, second or third by 26 percent), managerial succession (20 percent) and mergers/acquisitions (18 percent) (Table 10).

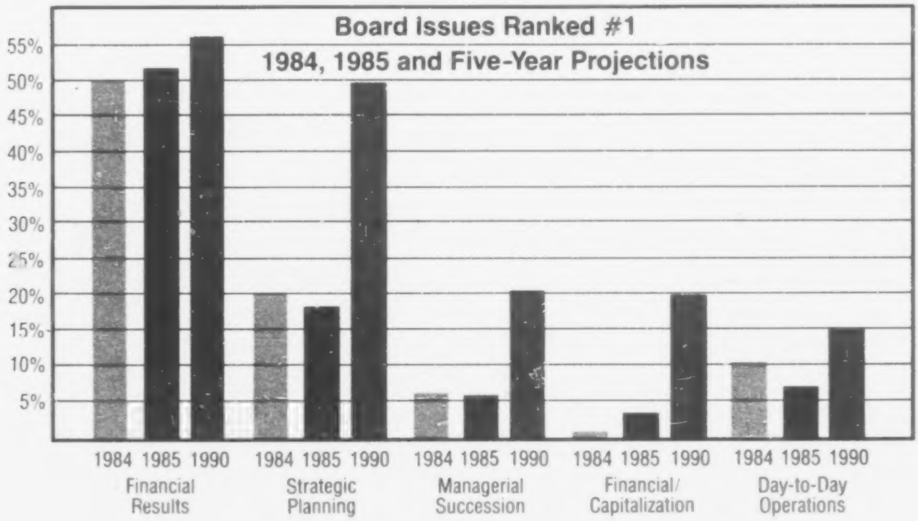
Corporations showed a drop in concern for day-to-day operations since last year from 30 percent to 24 percent.

When asked to rank the single most important issue that will be facing the board five years from now, respondents named financial results most frequently (57 percent), with strategic planning second (49 percent), followed by managerial succession (20 percent).

This continued emphasis on financial results is a reversal of last year's projections when 44 percent of the companies surveyed predicted that strategic planning would be the most important issue of the future. Financial results was ranked first by only 37 percent last year.

Interestingly, the issue of mergers/acquisitions was seen as increasing in importance only by banks and other financial institutions. Industry competition and financing/capitalization jumped from one percent and three percent to 14 percent and 19 percent, respectively.

Presently, financial results occupy the most board time (24 percent). The respondents estimate that 21 percent of board time is devoted to day-to-day operations. Strategic planning, even though companies believe its importance has lessened, took 13 percent of board time.



12. Participating Companies (Table 11)

—Size of Participating Companies (Table 11A)
—Stock Exchange of Participating Companies (Table 11B)
—Type of Participating Companies (Table 11C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	4	6	10
$200 million-$399 million	3	7	10
$400 million-$599 million	4	7	11
$600 million-$999 million	3	8	11
$1 billion-$2.999 billion	3	10	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	4	10	14
Banks and other financial institutions	4	16	20
Insurance companies	3	13	16
Retailers	4	9	13
Service companies	3	9	12
Average	4	10	14

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	79.6%	36.0%
No	19.4%	61.6%
No response	1.0%	2.4%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	% 1981	% 1984	% 1985
Senior executive (other companies)	87.5%	87.5%	81.8%
Retired executive (other companies)	65.0%	69.4%	68.2%
Academician	50.3%	51.5%	54.5%
Retired or previously employed corporate officer	49.2%	46.0%	46.4%
Women	38.9%	44.7%	45.0%
Attorney (does not provide legal services for the company)	32.2%	33.5%	31.5%
Commercial banker	38.1%	31.3%	30.8%
Former government official	26.7%	30.8%	29.6%
Major shareholder (not officer of the company)	32.3%	29.2%	29.4%
"Professional" director	14.2%	17.9%	28.2%
Ethnic minority member	17.5%	26.2%	25.4%
Attorney (provides legal services for the company)	29.7%	28.4%	24.9%
Investment banker	27.4%	24.3%	24.2%
Non-U.S. citizen	15.0%	14.8%	14.0%
International executive (American)	8.9%	7.6%	8.7%
Employee representative	1.5%	—	2.2%
Consumer group representative	0.8%	—	1.7%

FIVE-YEAR TREND

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	25.8%	31.3%
Senior executives (other company)	20.8%	19.9%
Former government officials	10.8%	10.8%
Attorneys (do not provide legal services)	8.1%	16.9%
Major shareholders (not officers of the company)	9.6%	—

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	% 1981	% 1984	% 1985
Audit	99.2%	97.6%	97.2%
Compensation	85.5%	85.5%	82.2%
Executive	79.7%	79.9%	78.2%
Nominating	57.8%	61.5%	59.2%
Finance	32.2%	37.8%	38.2%
Benefits	30.0%	33.6%	36.5%
Public affairs	11.2%	11.5%	10.6%
Corporate ethics	6.8%	7.0%	5.9%
Science/Technology	—	—	2.4%

FIVE-YEAR TREND

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	4	6
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public affairs	1	5	6
Corporate ethics	1	4	5
Science/Technology	1	3	4

4C. How many committee meetings were held during the past 12 months?

Committee	1981 Average Number of Meetings	1984 Average Number of Meetings	1985 Average Number of Meetings
Audit	3	3	3
Compensation	4	4	4
Executive	5	3	4
Nominating	2	2	2
Finance	5	4	5
Benefits	3	3	3
Public affairs	3	3	3
Corporate ethics	3	3	2
Science/Technology	—	—	2

FIVE-YEAR TREND

TABLE 5—COMPENSATION

5A. How are board members compensated?

Compensation	% 1981	% 1984	% 1985
Annual plus per-meeting fee (see Table 5B and 5C for amounts)	83.0%	85.0%	85.6%
Annual fee only (see Table 5D for amounts)	13.9%	10.0%	10.4%
Per-meeting fee only	2.8%	3.2%	1.9%
No response	0.3%	1.8%	2.1%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

5B. Annual Plus Per-Meeting Fee

Annual Fee Amount	% 1981	% 1984	% 1985
Under $5,000	10.0%	5.5%	4.4%
$5,000-$6,999	17.5%	8.6%	8.3%
$7,000-$10,999	31.6%	26.0%	21.6%
$11,000-$13,999	18.3%	18.2%	14.8%
$14,000 and over	22.6%	41.3%	50.9%
Unspecified	—	0.4%	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

Average Annual Fee	$9,900	$12,400	$13,629

PLUS

Amount Per Meeting	% 1981	% 1984	% 1985
Under $250	2.8%	0.8%	1.1%
$250-$499	19.5%	9.1%	7.1%
$500-$599	36.6%	27.7%	24.1%
$600-$799	41.1%	37.7%	38.3%
$800 and over	—	24.3%	29.4%
Unspecified	—	0.4%	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

Average Per-Meeting Fee	$680	$724	$834

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1981	% 1984	% 1985
Under $7,000	7.0%	1.9%	2.3%
$7,000-$10,999	19.9%	10.1%	8.7%
$11,000-$13,999	18.7%	13.4%	11.3%
$14,000-$16,999	15.7%	17.1%	13.2%
$17,000-$19,999	13.3%	16.1%	15.5%
$20,000-$24,999	18.3%	21.8%	25.5%
$25,000 and over	7.1%	19.6%	23.5%
TOTAL	100.0%	100.0%	100.0%
Average	$15,660	$18,800	$19,544

FIVE-YEAR TREND

5C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	1981 Average Compensation	1985 Average Compensation	1985 Upper Quartile Average
Industrials			
Under $200 million	$ 9,160	$14,426	$21,571
$200 million-$399 million	$11,680	$14,013	$19,088
$400 million-$599 million	$12,340	$15,492	$19,250
$600 million-$999 million	$14,380	$19,557	$27,033
$1 billion-$2.999 billion	$18,670	$21,949	$30,147
$3 billion-$4.999 billion	$21,590	$24,534	$30,095
$5 billion and over	$23,800	$26,126	$33,332
Banks and other financial institutions	$13,880	$18,751	$27,456
Insurance companies	$13,140	$17,462	$26,938
Retailers	$16,380	$17,490	$26,786
Service companies	NA	$22,141	$27,520
Average	$15,660	$19,544	$27,375

FIVE-YEAR TREND

5D. Annual Fee Only

Annual Fee Amount	% 1981	% 1984	% 1985
Under $7,000	9.5%	4.8%	5.0%
$7,000-$9,999	17.9%	11.1%	8.3%
$10,000-$11,999	14.3%	9.5%	5.0%
$12,000-$13,999	11.9%	11.1%	13.3%
$14,000-$15,999	13.1%	11.1%	11.7%
$16,000-$19,999	33.3%*	17.5%	16.7%
$20,000 and over	NA	34.9%	40.0%
TOTAL	100.0%	100.0%	100.0%
Average	$13,600	$16,700	$17,982

FIVE-YEAR TREND

*Figure represents $16,000 and over.

TABLE 6—COMMITTEE COMPENSATION

6A. Are outside directors paid an extra fee for serving on a committee?

	% 1981	% 1985
Yes	89.4%	86.8%
No	9.4%	9.9%
No response	1.2%	3.3%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

6B. If yes, how are they compensated?

	% 1981	% 1985
Per-meeting fee only	62.7%	73.2%
Annual plus per-meeting fee	29.3%	10.0%
Annual fee only	7.4%	10.2%
No response	0.6%	6.6%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

7A. Has board compensation been raised within the last 12 months?

	% 1984	% 1985
Yes	41.9%	34.1%
No	53.9%	64.0%
No response	4.2%	1.9%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	1984 Increase	1985 Increase
Industrials		
Under $200 million	$2,480	$1,961
$200 million-$399 million	$1,970	$2,350
$400 million-$599 million	$2,220	$1,900
$600 million-$999 million	$3,110	$1,768
$1 billion-$2.999 billion	$3,220	$2,640
$3 billion-$4.999 billion	$2,900	$2,656
$5 billion and over	$2,720	$3,434
Banks and other financial institutions	$2,830	$2,732
Insurance companies	$2,950	$3,171
Retailers	$2,520	$4,492
Service companies	$2,580	$2,709
Average	$2,710	$2,777

7B. Do you contemplate raising board compensation in the next year?

	% 1984	% 1985
Yes	21.6%	25.5%
No	71.6%	66.9%
No response	6.8%	7.6%
TOTAL	100.0%	100.0%

7C. How much did the highest paid outside director receive in 1985 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1981 Average Compensation	1985 Average Compensation	1985 Upper Quartile Average
Industrials			
Under $200 million	$14,180	$17,162	$28,438
$200 million-$399 million	$15,020	$18,604	$29,452
$400 million-$599 million	$14,860	$18,745	$28,643
$600 million-$999 million	$18,500	$25,872	$39,133
$1 billion-$2.999 billion	$23,730	$27,680	$37,589
$3 billion-$4.999 billion	$28,810	$32,174	$40,929
$5 billion and over	$33,920	$42,468	$68,747
Banks and other financial institutions	$18,400	$26,135	$43,675
Insurance companies	$20,040	$27,878	$38,709
Retailers	$18,230	$25,092	$43,500
Service companies	NA	$27,176	$37,650
Average	$20,600	$27,424	$41,539

FIVE-YEAR TREND

7D. Who is primarily responsible for establishing board compensation?

	%
Chairman	52.8%
Compensation committee	33.0%
Entire board	27.7%
Nominating committee	9.3%
Executive committee	8.5%

7E. What benefits are included in the compensation plan for outside directors?

	% 1981	% 1984	% 1985
Travel expense reimbursement	83.3%	90.8%	95.8%
Directors' liability insurance	88.3%	87.0%	93.4%
Deferral of board fees until retirement	44.0%	60.3%	67.5%
Matching educational gifts program	6.7%*	48.2%	50.3%
Accident insurance	42.6%	47.2%	48.6%
Travel expenses for spouse	NA	26.7%	27.2%
Retirement income plan	12.0%	19.9%	25.8%
Life insurance	18.6%	22.9%	23.4%
Pension plan	NA	12.8%	19.2%
Medical insurance	8.9%	9.8%	10.6%
Stock options	NA	1.1%	3.1%

*Write-in response

7F. Have your directors' liability insurance premiums been increased?

	%
Yes	68.2%
No	26.1%
No response	5.7%
TOTAL	100.0%

7G. Has your total dollar coverage been decreased?

	%
Yes	27.3%
No	67.3%
No response	5.4%
TOTAL	100.0%

7H. If yes, by how much?

	Premiums % Increase	Dollar Coverage Decrease in Thousands From	To
Industrials			
Under $200 million	208%	$48,383	$43,365
$200 million-$399 million	504%	$21,667	$10,556
$400 million-$599 million	460%	$45,000	$20,833
$600 million-$999 million	391%	$22,860	$12,859
$1 billion-$2.999 billion	395%	$63,395	$45,252
$3 billion-$4.999 billion	276%	$43,333	$25,000
$5 billion and over	318%	$91,667	$56,806
Banks and other financial institutions	271%	$79,318	$39,705
Insurance companies	431%	$35,667	$22,667
Retailers	337%	$83,333	$36,667
Service companies	420%	$53,000	$34,250
Average	362%	$59,064	$34,131

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	17.1%
5-6	29.1%
7-9	21.1%
10-12	31.7%
13 and over	0.7%
No response	0.3%
TOTAL	100.0%
Average	8 meetings

8B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1984	% 1985
Under 40	2.7%	4.7%
41 to 70	19.3%	20.6%
71 to 100	22.6%	23.5%
101 to 130	16.4%	17.5%
131 to 160	9.0%	9.9%
161 to 190	7.1%	5.5%
191 and over	8.7%	7.4%
No response	14.2%	10.9%
TOTAL	100.0%	100.0%
Average	121 hours	114 hours

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	98	166
$200 million-$399 million	104	198
$400 million-$599 million	108	182
$600 million-$999 million	99	159
$1 billion-$2.999 billion	116	202
$3 billion-$4.999 billion	132	219
$5 billion and over	145	236
Banks and other financial institutions	99	160
Insurance companies	129	185
Retailers	105	198
Service companies	103	176
Average	114	196

TABLE 9—LOCATING OUTSIDE DIRECTORS

9A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	76.8%	46.9%
One	16.3%	31.0%
Two	2.9%	15.4%
Three or more	1.4%	4.2%
No response	2.6%	2.5%
TOTAL	100.0%	100.0%

9B. How are outside directors located for the board?

	% 1981	% 1984	% 1985
Recommendation of chairman	77.1%	78.0%	81.3%
Recommendation of board members	74.4%	74.7%	77.3%
Nominating committee	55.0%	56.9%	63.7%
Recommendation of other corporate officers	42.9%	38.2%	37.4%
Referral from executive acquaintances	12.2%	11.5%	11.4%
Executive search	6.3%	9.1%	10.9%
Bank referral	1.8%	1.2%	2.1%
Referral from attorneys	1.5%	1.2%	1.6%

FIVE-YEAR TREND

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1981	% 1984	% 1985
Yes	20.5%	16.9%	20.4%
No	76.9%	73.5%	77.7%
No response	2.6%	9.6%	1.9%
TOTAL	100.0%	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1981	% 1984	% 1985
Time commitment	83.8%	56.1%	60.2%
On too many boards	NA	25.2%	28.8%
Conflict of interest	NA	16.8%	21.2%

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	56.3%	76.0%	83.0%
Strategic planning	19.2%	42.2%	62.8%
Financing/Capitalization	2.8%	9.5%	26.1%
Day-to-day operations	8.0%	17.1%	24.0%
Managerial succession	6.5%	12.1%	20.4%
Mergers/Acquisitions	1.3%	8.0%	17.8%
Industry competition	1.5%	7.3%	17.5%
Executive compensation	—	1.7%	5.4%
Corporate takeovers	1.5%	7.3%	4.3%
Shareholder relations	0.4%	1.0%	3.3%
Governmental relations	0.6%	1.7%	3.3%
Multinational issues	0.6%	0.9%	1.7%
Communications/Public relations	0.2%	0.3%	1.0%
White collar crime	—	0.2%	0.2%
Growing influence of institutional investor	—	—	0.2%

TABLE 11—PARTICIPATING COMPANIES

11A. Size of Participating Companies

	No. of Companies	%
Industrials		
Under $200 million	26	4.4%
$200 million-$399 million	43	7.3%
$400 million-$599 million	39	6.6%
$600 million-$999 million	45	7.6%
$1 billion-$2.999 billion	73	12.3%
$3 billion-$4.999 billion	36	6.1%
$5 billion and over	70	11.8%
Banks and other financial institutions	88	14.9%
Insurance companies	56	9.5%
Retailers	30	5.1%
Service companies	86	14.4%
TOTAL	592	100.0%

11B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	71.3%
American Stock Exchange	4.4%
Over-the-counter	14.3%
Other (private, mutual)	10.0%
TOTAL	100.0%

11C. Type of Participating Companies*

	%
Industrial	56.0%
Banks and other financial institutions	14.9%
Insurance	9.5%
Retail	5.1%
Service (new category)	14.5%
TOTAL	100.0%

**This year 1,000 companies were asked to participate. There were 592 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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Library of Congress
Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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BS000-3.2

Board of Directors
Thirteenth Annual Study
Billion Dollar Corporations
Supplement 1986

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KORN/FERRY INTERNATIONAL
THIRTEENTH ANNUAL BOARD OF DIRECTORS STUDY OF BILLION DOLLAR CORPORATIONS

Introduction

Each year we supplement our regular Board of Directors Study with an analysis of the data pertaining to companies with revenues in excess of $1 billion.

Our latest survey was answered by 592 corporations, of which 216 were industrial and service companies with revenues in excess of $1 billion. Of these, 83, or 39 percent, were $5 billion-and-over companies. We have long since discovered that these companies are generally in the vanguard when it comes to setting board policy.

Over the past 13 years, we have seen the larger companies lead the move away from rubber stamp boards composed largely of insiders to genuinely independent boards made up of outside directors with strong operating experience. Their boards average 10 outside and four inside directors. But for the first time in recent years, a major threat to the ability to maintain this independence is being reported by the participants. There is trouble on the horizon as it becomes harder and harder to fill board seats. Boards have come under increasing pressure from shareholders and other constituents, and as legal liabilities mount, many prospective directors are turning down invitations to sit on the board.

This trend is even more pronounced at the larger companies. One out of four billion dollar respondents experienced a board refusal in the past year. For all the companies surveyed, one out of five experienced such a refusal. And, astonishingly so, among the industrial and service companies considered as a group, 62 percent of the refusals were at the billion dollar plus companies. At banks and insurance companies too, the larger the institution, the more likely it was to experience a refusal. Likewise, only the larger retailers reported board refusals.

This is disturbing news, and if the refusal rate continues to climb as it shows every sign of doing, corporations may soon feel an acute shortage of qualified directors. Sixty-eight percent of the chief executive officers polled at billion dollar companies believe that the recent emphasis on director liability is *not* a temporary phenomenon but is here to stay. And 87 percent said that increased liability would indeed cause them to reduce the number of boards on which they are willing to serve.

Liability Insurance, A Problem

Sixty-six percent of the billion dollar companies reported increases in the premiums they paid for D&O insurance in the past year. On average, these increases were three-fold (336%).

Not only did premiums increase dramatically, but there was also a major decrease in the amount of total dollar coverage. Of the 25 percent of billion dollar companies that experienced such a decrease, coverage fell, on average, from $76 million to $49 million, a 36 percent drop. In what clearly is a new trend, and because of the high cost of insurance (and in some cases the impossibility of obtaining liability insurance at any cost), 16 percent of the billion dollar companies are considering self-insurance. Eighteen percent of the $5 billion-plus companies are contemplating this option.

The risks and time commitment required may not justify the rewards for serving on boards. Fees paid to directors seem insignificant when compared to the potential liability and hours demanded of them. In 1985, directors spent an average of 126 hours on board-related business and their compensation averaged $23,600, only one percent higher than the year before. We predict the day is coming when there may well be an actual shortage of qualified outside directors, which, we think will drive directors' fees up substantially.

As the issue of accountability looms over boardrooms today and directors are increasingly forced to operate in a volatile, litigious, and often uncertain climate, we think that the actions of the boards of America's largest companies bear careful watching. If new trends emerge and if solutions to the dilemmas presently confronting boards are to be found, they are likely to come from this quarter.

Lester B. Korn

Lester B. Korn
Chairman

Richard M. Ferry

Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are directly related to billion dollar corporations (Table 1). When appropriate, key comparisons are made between this group and all participants in our study.*

1. Size of Board (Table 2)

Billion dollar corporate boards continue to seat an average of 14 directors, the same as reported for all respondents. The average for the largest companies, $5 billion and over, is 15 members. Banks and other financial institutions continue to maintain the largest boards, averaging 20 directors.

2. Inside Directors vs. Outside Directors (Table 2)

Outside directors constitute a majority of board members among billion dollar corporations, as they do for all respondents as a group.

This year, billion dollar corporations have an average of four inside directors and 10 outside directors, the same as all boards. The average for the $5 billion-and-over companies is four inside and 11 outside members.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

This year, 83 percent of the billion dollar corporations report that the chairman also serves as chief executive officer, up from 82 percent last year and slightly higher than the average of 80 percent among all corporations surveyed.

Only 34 percent of the billion dollar respondents report having a chief executive officer who also acts as chief operating officer, a decrease from the 40 percent who reported this relationship last year. This percentage is also slightly below the 36 percent for all respondents.

4. Board Composition (Table 4)

Outside directors originate most often from the following categories: senior executives of other companies (86 percent), retired executives of other companies (75 percent) and academicians (67 percent). Representation of retired or previously employed corporate executives as well as commercial bankers continued to decline from the averages reported five years ago.

Billion dollar companies report that 42 percent seat former government officials on their boards. Their representation rises to 60 percent for $5 billion-and-over companies, compared with 30 percent for all respondents and only 11 percent for smaller industrials with revenues under $200 million.

This year, 592 corporations responded to our Thirteenth Annual Study. Industrial and service corporations account for 71 percent of the total, of which 216 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 15 percent, insurance companies for 10 percent and retailers for five percent.

Thirty-two percent of billion dollar boards now seat at least one professional director, compared with 18 percent reported in 1981.

Women and ethnic minorities continue to constitute growing sources of outside directors for billion dollar corporations. Over the past five years, representation from these two groups increased significantly. This year, 51 percent report women on their boards, up from 42 percent five years ago. Sixty-three percent of the $5 billion-and-over companies have women directors. Ethnic minorities now sit on 31 percent of the billion dollar boards, up from 27 percent over the past five years. By comparison, in all companies surveyed, the number of boards with women has leveled off at 45 percent, and the number seating minorities actually fell this year from 26 percent to 25 percent (Table 4A).

Women and ethnic minorities are primarily academicians, senior executives of other companies, former government officials and attorneys who do not provide legal services for the company (Table 4B).

As part of the trend toward an increased number of independent outside directors, the billion dollar corporations seek executives with broad management experience, a primary consideration for 85 percent of the respondents. The billion dollar corporations report a higher percentage of senior and retired executives from other companies than any of the other groups in the study.

5. Committees (Table 5)

Among the billion dollar corporations, audit (97 percent), compensation (84 percent) and executive (80 percent) continue to be the most prevalent committees. But the percentage of companies using finance and benefits committees is well above the averages reported five years ago. Billion dollar corporations report that 51 percent have a finance committee and 36 percent have a benefits committee, up from 32 percent and 30 percent, respectively. Sixty percent of the $3 billion-$4.999 billion companies have a finance committee.

Seventy percent of the billion dollar companies use a nominating committee, up from 58 percent reported in our Ninth Annual Study (Table 5A). The percentage rises to 75 percent for the $5 billion-and-over corporations. Among corporations with nominating committees, 28 percent use the committee in the management succession process, slightly higher than the 22 percent reported for all respondents. The executive committee plays the dominant role in the management selection process among the billion dollar companies (45 percent).

Committees have an average of four to six directors. The finance and public affairs committees are the largest. The audit, compensation and benefits committees are composed entirely of outside directors (Table 5B).

Although the average total number of directors has not changed, billion dollar corporations reported a shift in committee composition compared with last year. The average number of inside directors on the executive and finance committees decreased by one. The finance and public affairs committees increased their number of outside directors by one member, and the corporate ethics committee reported a decrease in the number of outside directors.

The average number of meetings for the finance committee increased from four meetings in 1981 to five in 1985. The benefits and corporate ethics committees decreased their average number of meetings to three and two, respectively. All committees held between two and five meetings (Table 5C).

6. Compensation (Table 6)

Eighty-eight percent of the billion dollar respondents compensate outside directors on an annual plus per-meeting fee basis. Correspondingly, the percentage of billion dollar corporations paying an annual fee only has decreased to nine percent from 11 percent in 1984. Two percent compensate directors with per-meeting fees only.

—Annual Plus Per-Meeting Fee (88 percent)

This year, outside directors of the billion dollar companies that pay an annual plus per-meeting fee earned an average total compensation of $23,601, an increase of only one percent over last year's average but 14 percent more than in 1981. However, this figure is 21 percent higher than the $19,544 averaged by all respondents. The $23,601 compensation comprises an average annual fee of $17,144 and an average per-meeting fee of $764. Director fees of the $5 billion-and-over companies grew at a slower pace with an average compensation of $25,926 reported this year, a nine percent increase compared with our Ninth Annual Study.

The upper quartile compensation for the billion dollar companies, included here for comparative purposes, ranges from $29,017 to $32,813 with an average of $31,205, 14 percent more than the $27,375 average for all respondents.

—Annual Fee Only (9 percent)

In billion dollar corporations that pay an annual fee only, outside directors earned an average of $21,805, 21 percent more than the $17,982 average among all respondents. For $5 billion-and-over companies, average annual fees rose to $24,883.

7. Committee Compensation

Ninety percent of the billion dollar respondents compensate their directors with an additional fee for serving on committees. Although the per-meeting fee predominates, 13 percent of committee members and 38 percent of the chairmen receive annual fees only for committee participation. Only 10 percent pay both an annual plus per-meeting fee to committee members. For committee chairmen, this method of payment rises to 18 percent.

Per-meeting fees for the billion dollar respondents average $682, compared with $616 for all companies. Committee chairmen received somewhat higher compensation, an average of $721 per meeting, rising to $748 for the $5 billion-and-over companies.

8. Additional Compensation Information (Table 7)

Average total compensation for the single highest paid director at a billion dollar corporation was $33,355 last year for all board service activities, exclusive of any consulting arrangements. This represents a 12 percent increase over last year's average and is 21 percent more than the average of five years ago.

Compensation for the upper quartile ranged from $39,126 to $65,276, with an average of $51,607 (Table 7A).

In 1985, 32 percent of the billion dollar companies raised compensation to outside directors, compared with the 41 percent that did so last year. Respondents reported an average increase of $2,956. This amount is slightly more than the increase for all board respondents ($2,777), but about the same as last year's increase ($2,950) for the largest corporations. Twenty-six percent of the billion dollar companies contemplate raising director fees next year by an average of $2,608, compared with the projected increase of $2,304 for all respondents. Eighty-two percent of the billion dollar companies expressed a conviction that, in general, their outside directors are adequately compensated.

For 48 percent of the billion dollar respondents, the primary responsibility for board compensation rests with the chairman, up from 36 percent in 1984. In 35 percent of the cases, the entire board is responsible. Thirty-two percent stated that the compensation committee plays a role in establishing appropriate compensation.

Benefits continue to be increasingly important for outside directors. Compensation plans at 75 percent of the billion dollar companies (and 80 percent of the $5 billion-and-over corporations) permit outside directors to defer fees until retirement, up from 52 percent five years ago. Thirty-seven percent now provide a retirement income plan, considerably above the 15 percent with such plans five years ago. Other benefits commonly offered include matching educational gift programs (69 percent) and accident insurance (62 percent). Directors' liability insurance, although far more costly and with decreased coverage, remains nearly universal, as does travel expense reimbursement (97 percent) (Table 7B).

—Stock Ownership

Eighty-four percent of the billion dollar respondents stated that stock options should not be part of a director's compensation. Nevertheless, 79 percent of the participating billion dollar firms believe that all directors should own some company stock.

Ninety-four percent of the outside directors of billion dollar corporations report owning some stock in the companies they serve.

—Liability Insurance

Sixty-six percent of the billion dollar corporations responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1985, on an average of 336 percent. Twenty-five percent of billion dollar corporations (and 31 percent of the $5 billion-and-over companies) experienced a decrease in total dollar coverage, from an average $76 million to $49 million, a 36 percent drop compared with a 42 percent drop for all respondents.

Sixteen percent of billion dollar and 18 percent of $5 billion-and-over respondents are considering self-insurance.

9. Board Practices and Policies (Table 8)

Billion dollar corporate boards meet an average of eight times per year, the same as the average number of meetings for all respondents. Although 40 percent hold at least one regular meeting at a branch subsidiary and 28 percent hold at least one meeting at a production site, the majority of meetings (93 percent) are held at corporate headquarters.

A billion dollar company director spends an average 126 hours per year on board-related business, including review, preparation, meeting attendance and travel, a decrease from last year's 148 hours. The average for all respondents is 114 hours this year.

The chairmen of billion dollar corporations reported devoting an average of 180 hours. Time spent on board duties rose to 204 hours among the chairmen of the $5 billion-and-over companies.

Outside directors of the larger companies earned $187 per hour if compensated on an annual plus per-meeting fee basis, up considerably from the $157 reported last year.

Eighty-nine percent of the billion dollar respondents (and 93 percent of the $5 billion-and-over respondents) have a mandatory retirement age policy for their directors, 66 for inside and 70 for outside directors. The average retirement age for billion dollar board chairmen is 68.

10. Locating Outside Directors (Table 9)

Thirty percent of the billion dollar corporations had at least one outside director resign from their board this year. Retirement was by far the major reason, but a potential conflict of interest and time demands were also factors. Fifty-one percent added new outside directors, up from the 48 percent reported in 1984. Thirty-three percent expect a board vacancy in the coming year, a slight decrease from the 39 percent reported in 1984.

The nominating committee is now used to identify new directors by 79 percent of billion dollar corporate boards, up from 71 percent in 1984 and compared with 64 percent for all respondents. This percentage rose to 95 percent for the $3 billion–$4.999 billion companies. Boards continue to rely heavily on recommendations by the chairmen (78 percent) and by other board members (76 percent). Also, the use of executive search firms is increasing. Fifteen percent of the billion dollar companies now use executive search firms to help in selecting directors, up from 10 percent in 1981. Referrals from executive acquaintances continue to decrease.

Broad management experience was the most important factor when asking a director to sit on a board, cited by 85 percent. Specific industry experience and strong financial skills were preferred by 34 percent and 30 percent, respectively. Fifty-eight percent reported that personal stature was an important factor and second only to broad management experience.

Twenty-four percent had a prospective director decline an invitation to serve on the board, up from 19 percent last year. Time commitment was the major reason for declining, cited by 62 percent of the billion dollar corporations and 72 percent of the $5 billion-and-over companies, up from 55 percent and 65 percent, respectively. For 30 percent, sitting on too many boards was a reason for declining.

11. Issues (Table 10)

When asked to rank the importance of issues facing corporate boards today, 77 percent of the billion dollar respondents ranked financial results either first, second or third, up from 72 percent last year. Sixty-three percent ranked strategic planning among the top three.

Other major issues identified by these companies included managerial succession (27 percent), financing/capitalization (23 percent) and day-to-day operations (19 percent).

When asked to project the importance of the same issues five years from now, financial results placed first (51 percent), followed by strategic planning (49 percent). These two issues were reversed in importance last year. Other major issues cited by the billion dollar corporations as of long-term importance were managerial succession and financing/capitalization (20 percent and 18 percent, respectively).

Financial results demand the most time at corporate board meetings (25 percent), followed by day-to-day operations (22 percent) and strategic planning (15 percent).

TABLE 1—PARTICIPATING COMPANIES

Of those industrial and service companies with sales volumes $1 billion or over, 216 participated in our Thirteenth Annual Study.

Size of Company	Number of Companies	%
$1 billion-$2.999 billion	91	42.1%
$3 billion-$4.999 billion	42	19.4%
$5 billion and over	83	38.5%
TOTAL	216	100.0%

Exchange	Number of Companies	%
New York Stock Exchange	193	89.4%
American Stock Exchange	4	1.8%
Over-the-counter	7	3.2%
Other	12	5.6%
TOTAL	216	100.0%

TABLE 2—NUMBER OF DIRECTORS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion-$2.999 billion	4	9	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	4	11	15
Average	4	10	14

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO%	CEO/COO%
Yes	82.8%	33.5%
No	16.7%	63.3%
No response	0.5%	3.2%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1981 Companies Over $1 Billion	1985 Companies Over $1 Billion	1985 All Companies Surveyed
Senior executive (other companies)	88.8%	86.0%	81.8%
Retired executive (other companies)	71.8%	75.3%	68.2%
Academician	63.6%	67.4%	54.5%
Retired or previously employed corporate executive	53.4%	51.6%	46.4%
Woman	42.2%	51.2%	45.0%
Attorney (does not provide legal services for the company)	34.0%	30.7%	31.5%
Commercial banker	44.2%	34.4%	30.8%
Former government official	41.3%	41.9%	29.6%
Major shareholder (not officer of the company)	30.1%	25.1%	29.4%
"Professional" director	18.0%	32.1%	28.2%
Ethnic minority member	26.7%	31.2%	25.4%
Attorney (provides legal services for the company)	19.4%	20.0%	24.9%
Investment banker	31.6%	26.5%	24.2%
Non-U.S. citizen	23.8%	20.5%	14.0%
International executive (American)	14.1%	10.2%	8.7%
Employee representative	—	2.8%	2.2%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	30.0%	36.7%
Senior executives (other companies)	23.6%	16.5%
Former government officials	13.6%	16.5%
Professional directors	10.9%	6.3%
Major stockholders	7.3%	—
Attorneys (do not provide legal services)	6.4%	16.5%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	%1981 Companies Over $1 Billion	%1985 Companies Over $1 Billion	%1985 All Companies Surveyed
Audit	99.2%	97.2%	97.2%
Compensation	85.5%	84.2%	82.2%
Executive	79.7%	79.5%	78.2%
Nominating	57.8%	70.2%	59.2%
Finance	32.2%	51.2%	38.2%
Benefits	30.0%	36.3%	36.5%
Public affairs	11.2%	14.9%	10.6%
Corporate ethics	6.8%	7.4%	5.9%
Science/Technology	—	4.2%	2.4%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	1	5	6
Benefits	0	4	4
Public affairs	1	5	6
Corporate ethics	1	3	4
Science/Technology	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1981 Average Number of Meetings	1985 Average Number of Meetings
Audit	3	3
Compensation	4	4
Executive	4	4
Nominating	2	2
Finance	4	5
Benefits	4	3
Public affairs	3	3
Corporate ethics	3	2

TABLE 6—COMPENSATION

How are board members compensated?
Annual Plus Per-Meeting Fee (88.2 percent of respondents)

Annual Fee Amount	%1981	%1984	%1985
Under $7,000	4.6%	3.4%	3.2%
$7,000-$10,999	19.4%	9.5%	6.3%
$11,000-$13,999	26.1%	18.1%	11.6%
$14,000-$16,999	32.2%	26.7%	30.5%
$17,000 and over	17.7%	41.9%	48.4%
Unspecified	—	0.4%	—
TOTAL	100.0%	100.0%	100.0%
		FIVE-YEAR TREND	
Average Annual Fee	$13,320	$15,500	$17,144

PLUS

Amount Per Meeting	%1981	%1984	%1985
Under $500	7.2%	5.6%	4.2%
$500-$599	37.2%	20.5%	15.8%
$600-$799	36.1%	46.2%	46.3%
$800-$999	5.6%	8.1%	13.2%
$1,000 and over	13.9%	19.6%	20.5%
TOTAL	100.0%	100.0%	100.0%
		FIVE-YEAR TREND	
Average Per-Meeting Fee	$775	$767	$764

EQUALS

Total Annual Compensation	%1981	%1984	%1985
Under $14,000	11.1%	7.0%	5.0%
$14,000-$16,999	17.2%	6.0%	7.2%
$17,000-$19,999	18.9%	14.4%	11.1%
$20,000-$24,999	35.6%	34.8%	36.1%
$25,000 and over	17.2%	37.8%	40.6%
TOTAL	100.0%	100.0%	100.0%
		FIVE-YEAR TREND	
Average Total Annual Compensation	$20,640	$23,300	$23,601

Size of Company	1981 Average Compensation	1985 Average Compensation	1985 Upper 25% Average
$1 billion-$2.999 billion	$18,670	$20,890	$29,017
$3 billion-$4.999 billion	$21,590	$24,095	$29,557
$5 billion and over	$23,800	$25,926	$32,813
Average	$20,640	$23,601	$31,205

FIVE-YEAR TREND

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

7A. How much did the highest paid outside director receive in 1985 for all board activities exclusive of any consulting arrangement?

Amount	%1981	%1984	%1985
Under $14,000	2.5%	2.0%	4.2%
$14,000-$19,999	17.0%	10.4%	5.3%
$20,000-$24,999	19.9%	16.9%	11.1%
$25,000-$29,999	24.8%	21.5%	22.7%
$30,000-$39,999	20.4%	28.9%	33.9%
Over $40,000	6.2%	13.7%	22.8%
Unspecified	9.2%	6.6%	—
TOTAL	100.0%	100.0%	100.0%
Average	$27,570	$29,910	$33,355

FIVE-YEAR TREND

Highest Paid Directors

Size of Company	1981 Average Compensation	1985 Average Compensation	1985 Upper 25% Average
$1 billion-$2.999 billion	$23,730	$26,337	$39,126
$3 billion-$4.999 billion	$28,810	$32,346	$42,272
$5 billion and over	$33,920	$40,851	$65,276
Average	$27,570	$33,355	$51,607

FIVE-YEAR TREND

ADDITIONAL COMPENSATION INFORMATION (continued)

7B. What benefits are included in the compensation plan for outside directors?

	% 1984	% 1985
Travel expense reimbursement	93.0%	97.2%
Directors' liability insurance	90.1%	96.7%
Deferral of board fees until retirement	71.5%	75.3%
Matching educational gifts program	64.9%	69.3%
Accident insurance	58.7%	61.9%
Retirement income plan	29.8%	36.7%
Travel expenses for spouse	32.6%	31.2%
Pension plan	18.2%	30.2%
Life insurance	25.6%	27.4%
Medical insurance	10.7%	10.7%

TABLE 8—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review, preparation, meeting attendance and travel?

Number of Hours	%
Under 70	11.0%
70-100	24.4%
101-160	29.3%
161 and over	19.5%
No response	15.8%
TOTAL	100.0%
Average	126 hours

Size of Company	Number of Hours	Upper Quartile Average
$1 billion-$2.999 billion	115	197
$3 billion-$4.999 billion	123	203
$5 billion and over	145	247
Average	126	215

TABLE 9—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	%1981	%1985
Nominating committee	74.8%	78.5%
Recommended by chairman	79.6%	78.1%
Recommended by board members	78.6%	76.2%
Recommended by other corporate officers	38.8%	36.4%
Executive search	9.7%	15.4%
Referred by executive acquaintances	12.1%	8.9%
Referral from attorneys	—	1.4%

FIVE-YEAR TREND

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	%Ranking #1	%Ranking #1 or #2	%Ranking #1, #2 or #3
Financial results	48.1%	67.4%	77.2%
Strategic planning	23.0%	43.3%	63.3%
Managerial succession	10.2%	17.2%	27.0%
Financing/Capitalization	2.1%	8.8%	23.3%
Day-to-day operations	9.1%	14.0%	18.6%
Mergers/Acquisitions	1.2%	5.6%	14.4%
Industry competition	1.1%	6.5%	14.4%
Corporate takeovers	2.1%	2.8%	3.3%
Government relations	—	0.9%	2.8%
Shareholder relations	0.5%	0.9%	2.3%
Executive compensation	—	0.5%	2.3%
Multinational issues	0.5%	0.5%	1.9%
Communications/Public relations	—	—	0.9%

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Library of Congress
Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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B5000-3.3

Board of Directors
Thirteenth Annual Study
Banks & Other Financial Institutions
Supplement 1986

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KORN/FERRY INTERNATIONAL
THIRTEENTH ANNUAL BOARD OF DIRECTORS STUDY
BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

For the past 13 years, Korn/Ferry International has surveyed America's leading corporations in an effort to chart significant trends and developments in corporate governance at the board level.

As part of this Annual Board of Directors Study, we have regularly isolated and analyzed the data pertaining to banks and other financial institutions. This year, of 592 respondents to our survey, 88, or 15 percent, were financial institutions.

As we are all painfully aware, 1985 has been a difficult year for corporate boards. We've witnessed more shareholder suits, higher D&O insurance premiums along with shrinking coverage and a sense of urgency surrounding board issues in general. Financial boards may have been even harder hit than most others. Consider the following:

- 60 percent of the financial respondents think that recent court decisions are creating potentially dangerous precedents that will ultimately inhibit their ability to attract new directors.
- 71 percent of the banks and financial institutions polled feel that the current emphasis on director liability is *not* a temporary phenomenon. This feeling was considerably stronger among financial respondents than in the overall survey population, where 61 percent felt that liability was here to stay.
- 40 percent of the financial institutions believe that they will have difficulty retaining present directors (vs. 34 percent overall).
- 44 percent of banks and financial institutions reported the resignation of an outside director this year, well above the 32 percent resignation rate for all companies surveyed.
- 24 percent of the financial institutions reported that at least one prospective director declined an invitation to serve on the board, compared with 20 percent overall. Last year, only nine percent of the banks reported such a refusal.

- More financial companies than any other group experienced increases in director liability insurance premiums, 78 percent, compared with 68 percent for all respondents. While their rate of increase was lower than the average, it still stood at a remarkable 271 percent (vs. 362 percent overall).
- In total dollar coverage, banks saw a 50 percent drop, compared with a 42 percent drop for all companies.

In addition to these difficulties, we found that compensation for bank directors lags behind average director compensation by 12 percent. Furthermore, financial services directors actually saw a decrease in compensation from $17,500 in 1984 to $17,462 in 1985.

We think this all adds up to potentially disturbing news. The questions raised are complex and troublesome, and no easy solutions are apparent. 1986 may well prove to be a turning point in the definition of the corporate board of the future.

Lester B. Korn

Lester B. Korn
Chairman

Richard M Ferry

Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to bank and other financial institution respondents (Table 1). Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and other financial institutions have an average of 20 directors on their board—six more than the average of all respondents and higher than any other group responding to this study.

2. Inside Directors vs. Outside Directors (Table 2)

With an average of four inside and 16 outside directors, banks and other financial institutions have the strongest preference for outside director dominance.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Banks and other financial institutions report the highest percentage of chairmen who also function as chief executive officers. On the other hand, they have among the lowest percentage of CEO's who are also the chief operating officers. Eighty-four percent state that their chairman is the CEO (compared with 80 percent for all respondents) while only 30 percent report that their CEO is also their COO (compared with 36 percent for all respondents).

4. Board Composition (Table 4)

Banks and other financial institutions draw heavily from the ranks of senior executives of other companies and retired executives of other companies for their outside directorships. Senior executives of other companies are on 84 percent of financial institutions' boards and retired executives of other companies are on 61 percent (Table 4A). Furthermore, banks and financial institutions average nine senior executives from other companies (nearly double the overall average of five).

Seventy-two percent of financial respondents cite broad management experience as the primary consideration in asking a prospective director to sit on the board.

Women now sit on 61 percent of all financial company boards, compared with 45 percent for all companies. Only retailers reported seating more

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This year, 592 corporations responded to our Annual Study. Industrial and service corporations account for 71 percent of the total, of which 216 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 15 percent, insurance companies for 10 percent and retailers for five percent.

women directors. Women board members are drawn primarily from the ranks of academia (Table 4B).

Banks and other financial institutions are also among the leaders in ethnic minority representation. Minorities sit on 52 percent of their boards, well above the 25 percent overall average, and a significant increase over their 1981 minority representation rate of 41 percent (Table 4A). No other single group registers higher percentages of minorities on their boards. The financial companies also draw most of their minority members from the ranks of academia (Table 4B).

Academicians, who were widely sought as outside directors, were represented on 62 percent of the boards, compared with 56 percent in 1984 and 55 percent for all respondents.

Other groups frequently represented on financial boards include retired or previously employed corporate officers (41 percent), attorneys who do not provide legal services for the company (33 percent) and former government officials (31 percent). Financial boards, however, have a low percentage of investment bankers. Only 10 percent seat an investment banker, compared with 24 percent for all respondents.

Forty-two percent of banks and other financial institutions seat attorneys who provide legal services for the company and 25 percent have major shareholders on the board, up from 33 percent and 22 percent, respectively, in 1981 (Table 4A).

5. Committees (Table 5)

All but one of the 88 financial respondents report having an audit committee. As in the past, the two other most widely used committees are executive and compensation, cited by 86 percent and 78 percent, respectively. Along with insurance companies, financial institutions lead in the use of the executive committee. Fifty-eight percent have a nominating committee, compared with the 59 percent reported by all respondents. Banks and other financial institutions lead in the use of the corporate ethics committee. Their incidence nearly doubled from last year's seven percent to 12 percent in 1985 (Table 5A).

This year all committees are composed of five to seven members. The executive and finance committees are the largest with an average of seven members. The public affairs committee decreased by one outside member, while the audit and benefits committees added one outside director. The finance committee decreased by one inside member, while adding two outside directors. The corporate ethics committee grew by two members to six from the four reported in 1984. Once again, the audit, compensation and benefits committees each are composed entirely of outside directors (Table 5B).

Meetings of the executive committee increased from a low of five reported last year and six reported in 1981, to seven meetings reported this year. Only the corporate ethics committee decreased its average number of meetings from three last year back to two in 1985 (Table 5C).

6. Compensation (Table 6)

The annual plus per-meeting fee has emerged as the de facto standard for outside director compensation. This year 91 percent of bank and other financial institution respondents reported using this method, up from 85 percent last year and 78 percent five years ago. The annual fee only means of compensation was reported by six percent. Only three percent of the financial respondents used a per-meeting fee, a decrease from seven percent last year.

—Annual Plus Per-Meeting Fee (91 percent of the financial respondents)

The average total annual compensation for outside directors of banks and other financial institutions using this method of payment is $17,462, a slight dip from last year's average of $17,500 and only a 26 percent increase over the past five years (from $13,880). Along with insurance companies, financial institutions lag behind all other study respondents, by 12 percent in total compensation.

The $17,462 total average compensation comprises an average annual fee of $10,964 and an average per-meeting fee of $677. Although the average annual fee was up slightly from $10,800 in 1984, the per-meeting fee continued to dip in 1985. This year, the average for financial companies in the upper quartile is $26,938, slightly lower than the $27,375 average for all respondents.

—Annual Fee Only (six percent of the financial respondents)

The average annual fee for financial companies was $16,840, somewhat below the $17,982 average for all respondents, but 16 percent higher than the $14,500 average for financial companies last year.

—Per-Meeting Fee Only (three percent of the financial respondents)

The fee paid to outside directors of financial companies using this method of compensation averages $800, a 63 percent increase from five years ago, but a dip from last year's per-meeting fee only of $860.

7. Committee Compensation

Eighty-five percent of banks and other financial institutions provide additional compensation to their outside directors for serving on committees. Of these, 74 percent pay members a per-meeting fee only, up from 66 percent in 1984 and 52 percent in 1981. Fifty-six percent pay committee chairmen in this manner. Only 10 percent of committee members and 16 percent of the chairmen receive an annual plus per-meeting fee. An annual retainer is paid to 13 percent of committee members, and to more than twice as many committee chairmen. Often, the type of committee dictated the method of compensation.

The annual fee only method of committee compensation grew in popularity after declining to four percent in our Twelfth Annual Study.

Financial respondents received the lowest per-meeting fee compensation for committee participation. Fees averaged $500 for members and $528 for chairmen, or more than $100 less than the fee paid to all respondents.

8. Additional Compensation Information (Table 7)

The highest paid financial directors receive an average of $27,878, 22 percent higher than the $22,830 reported for financial companies last year and 52 percent more than the $18,400 reported five years ago. Compensation for the highest paid director is also slightly higher than the overall average of $27,424.

The average upper quartile compensation for financial respondents is $38,709 (vs. $41,539 for all respondents). While the 1984 to 1985 upper quartile compensation did not increase for total respondents, the average upper quartile fee did increase for banks and other financial institutions. Eleven percent also pay at least one outside director additional consulting fees, down from 21 percent last year.

Forty percent of the financial respondents increased directors' compensation by an average of $2,732 in 1985. This is slightly above the average increase for all respondents. However, this year's increase falls below the average increase of $2,830 for financial companies last year. Twenty-eight percent predict an increase in board fees for the coming year, well above the 11 percent that predicted an increase for 1985. Seventy-nine percent of the financial company respondents believe that their outside directors are adequately compensated, compared with 68 percent in 1984.

This year 60 percent of the banks and other financial institutions reported that their board chairmen had primary responsibility for establishing board compensation. In 23 percent, the entire board is responsible. Forty-four percent report that the compensation committee plays a role in establishing board compensation.

Banks and other financial institutions have taken the lead in allowing outside directors to defer board fees until after retirement. Seventy-six percent offered this option, considerably above the 68 percent who reported so last year, and the 51 percent five years ago. Thirteen percent offer retirement benefits, the same as last year, and less than any other respondent group.

Other benefits offered almost universally include travel expense reimbursement (96 percent) and directors' liability insurance (94 percent), each up from 89 percent last year. Accident insurance (40 percent) and matching educational gifts (36 percent) are also popular.

—Stock Ownership

Eighty-two percent of the respondents stated that stock options should not be part of directors' compensation. However, 81 percent of the participating financial firms believe that all directors should own some company stock, as compared with 74 percent last year.

Nearly all responding financial companies report that outside directors do, in fact, own stock in their companies. Banks and other financial institutions report that an average of eight outside directors own from one to 1,000 shares, six per board own from 1,000 to 5,000 shares, and five directors hold more than 10,000 shares.

—Liability Insurance

More financial companies than any other group experienced increases in directors' liability insurance premiums, 78 percent compared with 68 percent for all respondents. Although more banks and other financial institutions reported premium increases, their rate of increase was lower than any responding group, at 271 percent, compared with 362 percent average overall. Total dollar coverage decreased from $79 million to $40 million, or a 50 percent drop (compared with 42 percent for all respondents), second only to retailers.

Thirty-two percent of financial institutions are considering self-insurance, compared with 19 percent overall and more than any other responding group.

9. Board Practices and Policies (Table 8)

Banks and other financial institutions meet most frequently, with an average of nine regular board meetings, one more than the average of eight for all respondents. Although 40 percent held at least one of these meetings at a branch subsidiary, most meetings were convened at corporate headquarters.

An outside director of a financial institution devoted an average of 99 hours to board-related business last year—less than the average of 114 for all respondents and less than last year's average for financial companies. The upper quartile average for financial companies is 160 hours per year (Table 8A).

The chairmen of financial institutions spent considerably more time on board-related activities, devoting 169 hours, slightly more than the 164 hours spent by chairmen in general.

In 1985, the hourly rate for directors of financial companies was $176, slightly more than the overall hourly rate of $173.

Banks and other financial companies had more board resignations than any other reporting group. Forty-four percent reported the resignation of an outside director during the past year, well above the 32 percent figure for all companies. However, this figure was 13 percent less than last year's resignation rate for financial company respondents.

Sixty-seven percent added at least one new outside director, well above the 51 percent for all respondents. For the third consecutive year, banks more than any other group have added outside directors. Forty-eight percent expect a board vacancy in 1986, again more than any other. Sixty-five percent reported some use of the nominating committee to identify and select new directors, up considerably from last year's 54 percent. Nevertheless, most banks and financial institutions still rely predominantly on recommendations by their chairmen (88 percent) and by other board members (77 percent) (Table 8B). In selecting candidates for board membership, 93 percent of the financial companies view broad management experience as the primary consideration, followed by personal stature (77 percent).

Twenty-four percent of financial institutions report that at least one prospective director declined an invitation to serve on their boards, significantly greater than the nine percent reported last year and higher than the overall average of 20 percent. Time commitment was the primary reason cited for declining a board seat (Table 8C).

Ninety-two percent have a mandatory retirement age—up from 76 percent last year. The average retirement age is 67 for inside directors, 70 for outside directors and 69 for chairmen.

10. Issues (Table 9)

Financial results and strategic planning are the two most important issues facing the boards of banks and other financial institutions. When asked to rank critical board issues, 95 percent ranked financial results either first, second or third (up from 88 percent last year), and 57 percent ranked strategic planning among the top three. Strategic planning took more of a secondary position, dropping in ranking from 65 percent last year. These concerns were followed by financing/capitalization (34 percent) and day-to-day operations (28 percent).

When asked to project rankings for the same issues five years from now, financial results again placed first, cited by 68 percent, jumping from 47 percent last year. Strategic planning was rated second in importance to financial results, cited by 52 percent. Mergers/acquisitions, cited by 14 percent of the financial population last year, claimed the attention of 23 percent this year as an issue of long-term importance. The issue of the growing influence of institutional investors was seen by 35 percent as of long-term importance.

The greatest percentage of board meeting time is devoted to financial results (26 percent), followed by day-to-day operations (20 percent) and strategic planning (15 percent).

TABLE 1—PARTICIPATING COMPANIES

Eighty-eight of America's major banks and financial institutions participated in our Thirteenth Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under $2 billion	6	6.8%
$2 billion and over	82	93.2%
TOTAL	88	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	45	51.1%
American Stock Exchange	2	2.3%
Over-the-counter	32	36.4%
Other	9	10.2%
TOTAL	88	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institution	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	4	15	19
$2 billion and over	4	16	20
Average	4	16	20

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	84.3%	30.1%
No	15.7%	68.7%
No response	—	1.2%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1981 Financial Institutions	1985 Financial Institutions	1985 All Companies Surveyed
Senior executive (other companies)	89.9%	84.1%	82.2%
Retired executive (other companies)	66.7%	61.4%	68.2%
Academician	55.1%	62.2%	54.5%
Retired or previously employed corporate officer	46.4%	41.0%	46.4%
Woman	75.4%	61.4%	45.0%
Attorney (does not provide legal services for the company)	34.8%	32.5%	31.5%
Commercial banker	20.3%	16.9%	30.8%
Former government official	39.1%	31.3%	29.6%
Major shareholder (not officer of the company)	21.7%	25.3%	29.4%
"Professional" director	17.4%	24.1%	28.2%
Ethnic minority member	40.6%	51.8%	25.4%
Attorney (provides legal services for the company)	33.3%	42.2%	24.9%
Investment banker	8.7%	9.6%	24.2%
Non-U.S. citizen	17.4%	15.7%	14.0%
International executive (American)	14.5%	13.3%	8.7%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	25.5%	29.8%
Senior executives (other companies)	21.6%	27.7%
Former government officials	9.8%	4.3%
Attorneys (do not provide legal services)	9.8%	10.6%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	98.8%	97.2%
Executive	85.5%	78.2%
Compensation	78.3%	82.2%
Nominating	57.8%	59.2%
Benefits	31.3%	36.5%
Finance	19.3%	38.2%
Public affairs	14.5%	10.6%
Corporate ethics	12.0%	5.9%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	6	6
Executive	2	5	7
Compensation	0	5	5
Nominating	1	5	6
Benefits	0	5	5
Finance	1	6	7
Public affairs	1	4	5
Corporate ethics	1	5	6

5C. How many committee meetings were held during the past 12 months?

Committee	1981 Average Number of Meetings	1984 Average Number of Meetings	1985 Average Number of Meetings
Audit	5	5	4
Executive	6	5	7
Compensation	5	4	4
Nominating	3	2	2
Benefits	4	3	3
Finance	6	5	5
Public affairs	4	3	3
Corporate ethics	5	3	2

TABLE 6—COMPENSATION

Annual Plus Per-Meeting Fee (91 percent of respondents)

Annual Fee Amount	%
Under $5,000	8.1%
$5,000-$6,999	20.3%
$7,000-$10,999	32.4%
$11,000-$13,999	10.8%
$14,000 and over	28.4%
TOTAL	100.0%
Average Annual Fee	$10,964

PLUS

Amount Per Meeting	%
Under $250	—
$250-$499	18.9%
$500-$599	40.5%
$600-$799	20.3%
$800 and over	20.3%
TOTAL	100.0%
Average Per-Meeting Fee	$677

EQUALS

Total Annual Compensation	%
Under $7,000	1.4%
$7,000-$10,999	12.9%
$11,000-$13,999	18.6%
$14,000-$16,999	15.7%
$17,000-$19,999	17.1%
$20,000-$24,999	18.6%
$25,000 and over	15.7%
TOTAL	100.0%
Average Total Annual Compensation	$17,462

COMPENSATION (continued)

Annual Plus Per-Meeting Fee

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$17,462	$26,938
Insurance companies	$17,490	$26,786
Retailers	$22,141	$27,520
Service companies	$18,751	$27,456
Industrials		
Under $200 million	$14,426	$21,571
$200 million-$399 million	$14,013	$19,088
$400 million-$599 million	$15,492	$19,250
$600 million-$999 million	$19,557	$27,033
$1 billion-$2.999 billion	$21,949	$30,147
$3 billion-$4.999 billion	$24,534	$30,095
$5 billion and over	$26,126	$33,332
Average	$19,544	$27,375

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1985 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	6.9%
$11,000-$16,999	13.9%
$17,000-$24,999	26.4%
$25,000-$29,999	19.4%
$30,000-$39,999	23.7%
$40,000 and over	9.7%
TOTAL	100.0%
Average	$27,878

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$27,878	$38,709
Insurance companies	$25,092	$43,500
Retailers	$27,176	$37,650
Service companies	$26,135	$43,675
Industrials		
Under $200 million	$17,162	$28,438
$200 million-$399 million	$18,604	$29,452
$400 million-$599 million	$18,745	$28,643
$600 million-$999 million	$25,872	$39,133
$1 billion-$2.999 billion	$27,680	$37,589
$3 billion-$4.999 billion	$32,174	$40,929
$5 billion and over	$42,468	$68,747
Average	$27,424	$41,539

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	4.8%
40 to 70	24.1%
71 to 100	26.5%
101 to 160	26.5%
161 and over	6.1%
No response	12.0%
TOTAL	100.0%
Average	99 hours

Hours

Type and Size of Company	Number of hours	Upper Quartile Average
Banks and other financial institutions	99	160
Insurance companies	129	185
Retailers	105	198
Service companies	103	176
Industrials		
Under $200 million	98	166
$200 million-$399 million	104	198
$400 million-$599 million	108	182
$600 million-$999 million	99	159
$1 billion-$2.999 billion	116	202
$3 billion-$4.999 billion	132	219
$5 billion and over	145	236
Average	114	196

8B. How are outside directors located for the board?

	% 1984	% 1985
Recommended by chairman	77.9%	88.0%
Recommended by board members	70.6%	77.1%
Nominating committee	54.4%	65.1%
Recommended by other corporate officers	44.1%	43.4%
Referred by executive acquaintances	10.3%	8.4%
Executive search	2.9%	4.8%

BOARD PRACTICES AND POLICIES (continued)

8C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	23.5%
No	76.5%
TOTAL	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	52.6%
Conflict of interest	31.6%
On too many boards	15.8%

TABLE 9—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	72.8%	91.6%	95.2%
Strategic planning	12.3%	34.9%	56.6%
Financing/Capitalization	1.2%	10.9%	33.7%
Day-to-day operations	7.4%	18.1%	27.7%
Mergers/Acquisitions	1.2%	13.3%	22.9%
Industry competition	1.2%	6.0%	14.5%
Managerial succession	3.7%	8.4%	12.0%
Government relations	—	3.6%	7.2%
Executive compensation	—	—	4.8%
Communications/Public relations	—	1.2%	3.6%
Multinational issues	—	1.2%	2.4%
Corporate takeovers	—	2.4%	2.4%

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Library of Congress
Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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KORN/FERRY INTERNATIONAL

1986 ANNUAL BOARD OF DIRECTORS STUDY OF RETAIL COMPANIES

KORN/FERRY INTERNATIONAL

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Introduction

For the past 13 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify issues and track the evolution of the corporate board as an institution. As part of our annual study, we make a special study of the data pertaining to the boards of retail industry participants.

This year, of the 592 corporations that responded to our annual study, five percent were retailers. Industrial and service corporations accounted for 71 percent of the total, banks and other financial institutions, 15 percent and insurance companies, 10 percent.

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Whenever appropriate, comparisons are made between this group and all participants in our study.

1. Size of Board (Table 2)

After showing a marked increase in board size last year, retail boards returned to an average of 13 members, slightly less than the 14 reported for all respondents. The largest retailers (companies with revenues of $2 billion or more) however, average 14 directors.

2. Inside Directors vs. Outside Directors (Table 2)

The retail boards are composed of four inside and nine outside directors, one outside director less than the boards of all respondents. Retailers decreased the number of board members from five inside and 11 outside directors reported in 1984.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Eighty-six percent of the retail respondents report that their chairman is also their chief executive officer, up from 75 percent who reported this relationship last year and more than any other responding group. Twenty-eight percent note that their chief executive officer is also their chief operating officer, a decrease from 48 percent in 1984.

4. Board Composition (Table 4)

Retailers rely on senior executives of other companies as the primary source for outside directors, 79 percent, up from the 76 percent reported in our Ninth Annual Study. Retired executives of other companies are another important source for outside directors; their representation rose to 69 percent, up from 55 percent in 1981 and 64 percent last year.

Sixty-two percent of the retailers have women on their boards -- well above the 45 percent for all respondents and more than any other responding group, but a six percent decrease from last year's representation for retail boards (Table 4A). Retailers draw their outside women directors primarily from academia and the ranks of senior executives of other companies. (Table 4B). Minorities sit on 31 percent of retail boards, down from 40 percent last year, but greater than the 25 percent reported by all respondents. Minorities are primarily senior executives of other companies and attorneys who do not provide legal services for respondent companies.

Other groups that are highly visible on retail boards include academicians (on 52 percent), retired or previously employed corporate officers (41 percent), major shareholders who are not officers of the company (38 percent), and professional directors (38 percent).

For 1985, the following major trends in the composition of retail boards should be noted:
-Investment bankers continue to decrease from 33 percent in 1981 and 32 percent in 1984, to 17 percent in 1985.
-Attorneys who provide legal services to the company fell from 36 percent in 1980 and 1984 to 24 percent this year.
On the other hand, the following sources of outside directors experienced continuous increases in representation since 1981:

-Retired executives of other companies (from 55 percent to 69 percent).

-Professional directors (from 21 percent to 38 percent).

-Attorneys who do not provide legal services (from 21 percent to 31 percent).

-Former government officials (from 12 percent to 28 percent).

5. **Committees (Table 5)**

The committees most in use among the retail respondents continue to be the audit committee (reported by 100 percent of the respondents), compensation (reported by 86 percent), and executive (reported by 79 percent) (Table 5A). Sixty-six percent of the retailers have a nominating committee, up from 64 percent last year, and compared with 59 percent for all companies. The use of the corporate ethics committee has declined drastically. In 1985, only one retail company reported having this committee. With the compensation/benefits and executive committees, the nominating committee plays a significant role in the management succession process in retail organizations.

The executive and public affairs committees are the largest, averaging five directors each, although the public affairs committee decreased in size from last year's reported six members. This year, the finance committee declined to four members, from six members in 1984. Overall, committee size decreased this year, compared with 1984 when most committees increased in size. The compensation committee gained one outside director, while the number of outside directors for finance, nominating and public affairs committees decreased by one member. The audit and compensation committees are composed entirely of outside directors.

In 1985, committees averaged between two and three meetings per year (Table 5C). The finance and benefits committees decreased their average number of meetings back to three meetings as reported in 1983. Meetings of the public affairs committee increased by one.

6. Compensation (Table 6)

Retailers continue to compensate their outside directors with an annual plus per-meeting fee (85 percent). Eleven percent pay an annual fee only (up from eight percent in 1984). Conversely, use of the per meeting fee only declined significantly, from four percent in 1984 to 0 this year.

-Annual Plus Per-Meeting Fee (84.6 percent of the respondents).

Outside directors of retail boards saw a four percent increase in total average annual compensation, from $21,400 last year to $22,141 this year. Current retail compensation stands at 13 percent more than the total compensation for all respondents ($19,544). The total comprises an average annual fee of $16,542 and an average per-meeting fee of $771. Since 1983, the percentage of retailing directors who earn $25,000 or more increased from 12 to 36 percent. (In 1981, the average compensation for all retailers was only $16,380).

The upper quartile average for retailers, included in this section for comparative purposes, is $27,520 -- slightly higher than the $27,375 average for all respondents.

-Annual Fee Only

For retailers using this method of compensation, the average annual fee is $15,000, up 25 percent from last year's $12,000.

7. Committee Compensation (Table 7)

Eighty-three percent of the retail respondents pay their outside directors additionally for committee service, compared with 87 percent for all respondents. Of the retailing companies surveyed, 76 percent pay a per-meeting fee only to committee members. However, only 57 percent pay the committee chairmen in this manner. Alternately, 21 percent of the chairmen receive an annual fee only, while none of the retailers compensate committee members with this arrangement. An annual plus per-meeting fee was paid to more than 20 percent of the committee members and their chairmen.

Among retailers that paid a per-meeting fee only, the average fee for committee members averages $813, higher than any other respondent group.

8. Additional Compensation Information (Table 8)

Twelve retailers or 43 percent of the respondents raised outside director fees in 1985, up from 36 percent last year. For those who posted increases, the average amount was reported at $4,492, significantly higher than the $2,777 increase reported by all respondents and the average increase of $2,520 reported by retailers last year. Twenty-nine percent of the retailers project an increase in board fees during the next 12 months, up from 15 percent who predicted an increase last year.

The highest paid outside retail director earns an average $27,176 per year for all board services exclusive of any consulting arrangements. This represents a 49 percent increase over the 1981 average of $18,230. The upper quartile average in this category is $37,650 for retail directors -- less than the average $41,539 for all directors (Table 8A). Only one of the retail respondents has an outside director who also receives consulting fees.

Benefits continue to increase in importance as a part of outside director compensation plans in retail companies. Forty-three percent allow their outside directors to defer board fees until retirement. Twenty-nine percent provide retirement income plans (up from 25 percent last year). Other benefits include matching educational gifts programs (cited by 32 percent), accident insurance (36 percent) and pension plans, now offered by 18 percent of the respondents, up from 15 percent in 1984. Travel expense reimbursement and directors' liability insurance are commonly included and reported by 93 percent and 90 percent, respectively (Table 8B).

Ninety-six percent believe that their outside directors are adequately compensated, up from 64% last year.

-Stock Ownership

Eighty-six percent of the respondents stated that stock options should not be part of directors' compensation, up from 72 percent reported last year, and more than any other industry segment. Nevertheless, 86 percent of the participating retail firms believe that all directors should own some shares of company stock. And, 94 percent of the directors of outside retailing boards do, in fact, own company stock. Sixty-one percent of retail boards report as many as three outside directors who own 10,000 shares of stock, or more.

Only two retailing companies reported that none of their outside directors owned company stock.

-Liability Insurance

Sixty-four percent of the retail companies responded that directors' liability insurance premiums were increased on an average of 337 percent for those with policies up for renewal in 1985. The percent of increase for retailers was slightly less than the average of 362 percent for all respondents.

Only 11 percent of retail boards experienced a decrease in total dollar coverage compared with 27 percent of all companies and a high of 39 percent for insurance companies. However, when decreases occurred, the total decline in dollar coverage was greatest for retailers who averaged a 55 percent decline (from $83 million to $37 million), compared with a 42 percent decrease ($59 million to $34 million) for all companies.

Eighteen percent are considering self-insurance, about the same as reported by all respondents.

9. **Board Practices and Policies (Table 9)**

The retail respondents average seven regular board meetings per year -- one less than the average for all respondents, but the same number as reported for retailers last year. Although 32 percent hold at least one meeting at a branch subsidiary and 18 percent hold at least one meeting at a production site, 93 percent of all board meetings are held at corporate headquarters.

A retail company director devotes an average of 105 hours per year on board-related business, including time for review, preparation, attendance and travel (Table 9A). This is a slight decrease from the 109 hours reported in 1984, and the 130 hours reported in 1983, but up from 93 hours reported three years ago.

Board chairmen of retailing companies reported devoting an average of 107 hours, only two hours more than their directors' average of 105 and less than any responding group.

If compensated on an annual plus per-meeting basis, retailing directors earn an average $211 per hour. As in 1984, they received the highest hourly rate of all respondents.

The upper quartile average number of hours for retail directors was 198 compared with 196 hours reported by all respondents (Table 9A).

Along with banks and other financial institutions, retailers experienced the most director resignations, 43 percent compared with 32 percent for all respondents. Retirement was the major reason for resigning, cited by 58 percent. Forty-seven percent added new outside directors to their boards, compared with 40 percent in 1984 and 42 percent five years ago.

In selecting and identifying new directors, retailers continue to rely heavily on the recommendations of the chairmen and other board members (by 76 percent and 79 percent, respectively), but the use of the nominating committee grew significantly. This year, 69 percent cited its use in the selection process, up from 59 percent last year and 49 percent in 1981 (Table 9B).

Broad management experience continues to be the primary consideration in asking prospective directors to sit on the board (86 percent), followed by personal stature (62 percent) (Table 9C). Seventeen percent had a prospective director decline an invitation to serve on their board, continuing to decrease from last year's 24 percent, and from 33 percent reported two years ago, and less than the 20 percent reported for all respondents.

10. Board Issues (Table 10)

When asked to rank the relative importance of various issues facing corporate boards today, retail companies, unlike all other responding groups, rated strategic planning above the other issues. Sixty-nine percent ranked it first, second or third, up from 52 percent last year. Financial results, the second most important issue, was placed as one, two or three by 66 percent, compared with 84 percent in 1983. Other significant issues include day-to-day operations, managerial succession, and financing/capitalization.

However, when asked to project rankings for the same issues five years from now, strategic planning and financial results were cited as equal in importance as long term issues (54 percent). Financing/capitalization and industry competition followed with 25 percent and 21 percent, respectively.

TABLE 1 - PARTICIPATING COMPANIES

Thirty of America's major retailers participated in our Thirteenth Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	9	30.0%
$2 billion and over	21	70.0%
TOTAL	30	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	28	93.4%
American Stock Exchange	1	3.3%
Over-The-Counter	1	3.3%
TOTAL	30	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number of Inside Directors	Average Number of Outside Directors	Average Number of Directors
Under $2 billion	4	8	12
$2 billion and over	5	9	14
Average	4	9	13

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	86.2%	27.6%
No	13.8%	72.4%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1981 Retailers	1985 Retailers	1985 All Companies Surveyed
Senior Executives (other companies)	75.8%	79.3%	81.8%
Retired Executive (other companies)	54.5%	69.0%	68.2%
Academician	45.5%	51.7%	54.5%
Retired or Previously Employed Corporate Officer	51.5%	41.4%	46.4%
Woman	51.5%	62.1%	45.0%
Attorney (does not provide legal services to company)	21.2%	31.0%	31.5%
Commercial Banker	27.3%	20.7%	30.8%
Former Government Official	12.1%	27.6%	29.6%
Major Shareholder (not officer of the company)	48.5%	37.9%	29.4%
"Professional" Director	21.2%	37.9%	21.2%
Ethnic Minority Representative	12.1%	31.0%	25.4%
Attorney (provides legal services to the company)	36.4%	24.1%	24.9%
Investment Banker	33.3%	17.2%	24.2%
Non-U.S. Citizen	--	10.3%	14.0%
International Executive (American)	3.0%	6.9%	8.7%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	22.2%	22.2%
Senior Executives (other companies)	16.7%	33.3%
Attorneys (do not provide legal services)	11.1%	33.3%
Former Government Officials	11.1%	----
Major Stockholder	11.1%	----
Retired Executives (other companies)	5.6%	11.1%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the Board have?

Committee	1981 Retailers	1985 Retailers	1985 All Companies Surveyed
Audit	100.0%	100.0%	97.2%
Executive	81.8%	79.3%	78.2%
Compensation	78.8%	86.2%	82.2%
Nominating	51.5%	65.5%	59.2%
Finance	39.4%	41.4%	38.2%
Benefits	36.4%	51.7%	36.5%
Public Affairs	18.2%	17.2%	10.6%
Corporate Ethics	12.1%	3.4%	5.9%

5B. What is the composition of each committee?

Committee	Average # Inside Directors	Average # Outside Directors	Average # Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	3	5
Nominating	1	3	4
Finance	1	3	4
Benefits	1	3	4
Public Affairs	1	4	5
Corporate Ethics	0	0	0

5C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number of Meetings	1984 Average Number of Meetings	1985 Average Number of Meetings
Audit	4	3	3
Compensation	3	3	3
Executive	3	2	2
Nominating	2	2	2
Finance	3	4	3
Benefits	2	4	3
Public Affairs	3	2	3
Corporate Ethics	0	0	0

TABLE 6 - COMPENSATION

Annual Plus Per-Meeting Fee (84.6 percent of the respondents)

Annual Fee Amount	%
Under - $ 7,000	0.0%
$ 7,000 - $10,999	8.3%
$11,000 - $13,999	8.3%
$14,000 - $16,999	29.2%
$17,000 - $19,999	25.0%
$20,000 - $25,000	29.2%
TOTAL	100.0%
Average Total Annual Fee	$16,542

PLUS

Amount Per Meeting	%
Under $500	4.2%
$500 - $599	25.0%
$600 - $700	45.8%
$800 and over	25.0%
TOTAL	100.0%
Average Per-Meeting Fee	$771

EQUALS

Total Annual Compensation	%
Under $14,000	4.5%
$14,000 - $16,999	9.1%
$17,000 - $19,999	9.1%
$20,000 - $24,999	40.9%
$25,000 and over	36.4%
TOTAL	100.0%
Average Total Annual Compensation	$22,141

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$22,141	$27,520
Banks and other Financial Institutions	$17,462	$26,938
Insurance companies	$17,490	$26,786
Service companies	$18,751	$27,456
Industrials		
Under $200 million	$14,426	$21,571
$200 million - $399 million	$14,013	$19,088
$400 million - $599 million	$15,492	$19,250
$600 million - $999 million	$19,557	$27,033
$1 billion - $2.999 billion	$21,949	$30,147
$3 billion - $4.999 billion	$24,534	$30,095
$5 billion and over	$26,126	$33,332
Average	$19,544	$27,375

TABLE 7 - COMMITTEE COMPENSATION

7. Are outside directors paid an extra fee for serving on a committee?

	%
Yes	82.8%
No	10.3%
No response	6.9%
TOTAL	100.0%

If yes, how are they compensated?

Compensation	% 1984	% 1985
Per-Meeting Fee Only	47.8%	76.0%
Annual plus Per-Meeting Fee	43.5%	24.0%
Annual Fee Only	8.7%	---
TOTAL	100.0%	100.0%

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1985 for all board service activities exclusive of any consulting arrangements?

Amount	%
Under $11,000	--
$11,000 - $16,999	4.0%
$17,000 - $24,999	40.4%
$25,000 - $29,999	20.0%
$30,000 - $39,000	32.0%
$40,000 and over	4.0%
TOTAL	100.0%
Average	$27,176

Highest Paid Director

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$27,176	$37,650
Banks and other Financial Institutions	$27,878	$38,709
Insurance companies	$25,092	$43,500
Service companies	$26,135	$43,675
Industrials		
Under $200 million	$17,162	$28,438
$200 million - $399 million	$18,604	$29,452
$400 million - $599 million	$18,745	$28,643
$600 million - $999 million	$25,872	$39,133
$1 billion - $2.999 billion	$27,680	$37,589
$3 billion - $4.999 billion	$32,174	$40,929
$5 billion and over	$42,468	$68,747
Average	$27,424	$41,539

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	93.1%	95.8%
Directors' Liability Insurance	89.7%	93.4%
Deferral of Board Fees Until Retirement	42.9%	67.5%
Matching Educational Gifts Program	32.1%	50.3%
Accident Insurance	35.5%	48.6%
Travel Expenses for Spouse	14.3%	27.2%
Retirement Income Plan	28.6%	25.8%
Life Insurance	10.7%	23.4%
Pension Plan	17.9%	19.2%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	10.3%
40 to 70	20.7%
71 to 100	20.7%
101 to 130	10.4%
131 to 160	13.8%
161 and over	13.8%
No Response	10.3%
TOTAL	100.0%
Average	105 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	105	198
Banks and other Financial Institutions	99	160
Insurance companies	129	185
Service companies	103	176
Industrials		
Under $200 million	98	166
$200 million - $399 million	104	198
$400 million - $599 million	108	182
$600 million - $999 million	99	159
$1 billion - $2.999 billion	116	202
$3 billion - $4.999 billion	132	219
$5 billion and over	145	236
Average	114	196

9B. How are outside directors located for the board?

	%
Recommended by chairman	75.9%
Recommended by board members	79.3%
Nominating committee	69.0%
Recommended by other corporate officers	46.4%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Broad Management Experience	86.2%
Personal Stature	62.1%
Strong Financial Experience	24.1%
Specific Industry Experience	17.2%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	Percent Ranking No. 1	Percent Ranking No. 1 or 2	Percent Ranking No. 1, 2, or 3
Strategic planning	7.7%	51.7%	69.0%
Financial results	57.1%	64.3%	65.5%
Day-to-Day operations	11.5%	27.6%	34.5%
Managerial succession	7.7%	10.3%	24.1%
Financing/Capitalization	3.8%	6.9%	20.7%
Industrial competition	3.8%	10.3%	17.2%
Executive compensation	---	---	13.8%
Mergers/Acquisitions	---	---	10.3%
Shareholder relations	---	4.0%	8.0%

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KORN/FERRY INTERNATIONAL

1986 ANNUAL BOARD OF DIRECTORS STUDY OF INSURANCE COMPANIES

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Introduction

For the past 13 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special study of the data pertaining to the boards of insurance company participants.

This year, of the record 592 corporations that responded to our annual study, 10 percent were insurance companies. Industrial and service corporations accounted for 71 percent of the total, banks and other financial institutions, 15 percent and retailers, five percent.

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Whenever appropriate, comparisons are made with all other responding corporations in our study.

1. Size of Board (Table 2)

The boards of directors of insurance companies have an average of 16 members, the same as reported last year. This is two more than the average of 14 for all respondents. Banks and financial institutions continue to have the largest boards, averaging 20.

2. Inside Directors vs. Outside Directors (Table 2)

This year, insurance boards average three inside and 13 outside directors compared with five inside directors and 11 outside directors reported in 1984. This indicates the growing emphasis placed on outside representation. The averages for all respondents is four inside and 10 outside directors.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Seventy-five percent of this year's insurance respondents reported that their chairman is also the chief executive officer, compared with the average of 80 percent for all companies. Fifty-two percent report that their chief executive officer is also their chief operating officer, higher than any other responding group. This combination of responsibilities was reported by only 36 percent of all respondents.

4. Board Composition (Table 4)

Senior executives of other companies and retired executives of other companies comprise the two major sources of outside directors for insurance company boards. Each group was cited by 85 percent of our respondents. This suggests that insurance companies are continuing to seek outside directors who are independent of the company. These executives are sought for the considerable management experience they bring to a board position. In fact, 89 percent of the insurers cited broad management experience as the primary consideration in asking a prospective director to sit on their boards -- more than any other responding group.

More insurers' boards seat women directors than the overall average for all companies (60 percent vs. 45 percent) (Table 4A). The presence of women serving on insurance company boards has increased from 53 percent reported in our Ninth Annual Study. Representation by ethnic minorities on insurance boards declined from the previous year (from 29 percent to 25 percent), as it did for all respondents' boards. Both women and ethnic minority board members are drawn primarily from the ranks of academicians, senior executives of other companies, former government officials and attorneys who do not provide legal services to the company (Table 4B). More ethnic minority members are drawn from the ranks of attorneys who do not provide legal services than any other source, 47 percent compared with 27 percent last year.

A high percentage of insurance companies report seating academicians on their boards. In 1985, 69 percent were reported, well above the overall average of 55 percent. Similarly, the percentage of insurers having commercial bankers on their boards increased from 45 percent reported in 1984 to 62 percent reported this year, well above the 31 percent reported for all responding boards. Representation of both investment bankers and major shareholders doubled last year's averages to 31 percent and 29 percent, respectively (Table 4A).

5. Committees (Table 5)

The audit, compensation and executive committees continue to be the most prevalent standing committees among the insurance respondents. Insurers continue to lead all other responding groups in the use of the executive (90 percent vs. 78 percent overall), and finance (65 percent vs. 38 percent) committees. However, the percentage reporting a benefits committee declined to 14 percent from 16 percent and remains the lowest reported of all responding groups. Although the insurers' use of a corporate ethics committee declined from 16 percent to 10 percent this year, it remains higher than the six percent reported by all respondents. Fifty-eight percent have a nominating committee -- up from 53 percent in 1984, and about the same as the overall average (Table 5A).

The finance and executive committees are the largest, averaging seven members. The size of the compensation committee declined back to the four members reported in 1983 and 1981, from the six members reported last year. The audit, compensation and benefits committees are composed entirely of outside directors (Table 5B). The executive, benefits and public affairs committees each reported an increase in outside directors. The finance committee meets most frequently, averaging 13 meetings per year, up from 10 and eight meetings reported in 1981 and 1984, respectively.

6. Compensation (Table 6)

Ninety-two percent of the insurance company respondents compensate their outside directors on an annual plus per-meeting basis. Only two percent use the per-meeting only method of payment and six percent pay an annual fee only, the same as last year.

- Annual plus Per-Meeting Fee (92 percent of the respondents)

The average total yearly compensation for outside directors of insurance companies has increased 33 percent since 1981 from $13,140 to $17,490, and seven percent compared with last year ($16,400). However, insurers are 11 percent below the $19,544 yearly average reported for all respondents. The components of the total compensation include a $12,098 average annual fee and a $625 average per-meeting fee (Table 6A). The average annual retainer rose eight percent, but the per-meeting fee decreased slightly from the 1984 per-meeting compensation.

The upper quartile average, included in this section for comparative purposes, is $26,786, slightly below the $27,375 average for all respondents (Table 6B).

7. Committee Compensation

Ninety-four percent of the insurers compensate their outside directors additionally for serving on a committee. The most prevalent form of payment is the per-meeting fee only, used by 88 percent to pay committee members, and 69 percent to pay their chairmen. Conversely, 22 percent of committee chairmen, and 12 percent of the members receive an annual retainer.

Committee member fees average $563 per meeting, somewhat lower than the average of $616 paid to all respondents. Committee chairmen are generally compensated at a higher rate than committee members, averaging $614 per meeting.

8. Additional Compensation Information (Table 7)

Twenty-eight percent of the insurance company respondents raised board fees during the past year, down from 43 percent in 1984, and less than the overall average of 34 percent. The average fee increased $3,171, 24 percent higher than last year's increase of $2,560. In 1985, the average increase for all respondents was $2,777. Twenty-four percent project an increase during the coming year. Similar to all participants, 84 percent of the insurance company respondents believe that their outside directors are adequately compensated. In 1984, only 69 percent of the insurers felt that outside director compensation was adequate.

The highest paid insurance company director earned $25,092 in 1985, exclusive of consulting fees, up from $24,890 last year, and $20,600 as reported in our Ninth Annual Study. This is nine percent less than the $27,424 paid on average to the highest-compensated outside directors of all companies. However, the upper quartile average of $43,500 is five percent above the $41,539 upper quartile average for all respondents. Only service companies and industrials with revenues over $5 billion (Table 7) reported a higher average for this category. Fourteen percent of the insurance respondents report an average of two directors who also receives consulting fees.

Benefits continue to increase in importance as a part of compensation plans for outside directors of insurance companies. Twenty-two percent now offer life insurance and 69 percent have matching educational gifts programs (up from 61 percent). Seventy-five percent have plans that allow deferral of board fees until retirement, and 24 percent offer retirement benefits, up from 12 percent in 1984. Travel expense reimbursement and directors' liability insurance are provided by 96 percent and 92 percent, up from 92 percent and 84 percent, respectively.

-Stock Ownership

Seventy-one percent of the insurers stated that stock options should not be part of directors' compensation, up from 49 percent last year but compared with 81 percent for all respondents. Fifty-five percent of the insurance companies believe that all directors should own some shares of company stock, up from the 39 percent who responded affirmatively last year. In comparison, 75 percent of all respondents believe their directors should own shares of stock.

Insurance companies report that an average of 73 percent of their outside directors own stock in their companies.

Forty-seven percent state that an average of five outside directors own from one to 1,000 shares, 39 percent have an average of four directors with 1,000 to 5,000 shares, and 37 percent report four directors owning over 10,000 shares of company stock.

-Liability Insurance

Seventy-one percent of the insurance companies responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1985. Of all companies surveyed, only banks and other financial institutions experienced more increases in premiums. Additionally, insurance companies led all others in the percent of increase, at 431 percent, compared with the overall average of 362 percent.

Thirty-nine percent of the insurance respondents experienced a decrease in total dollar coverage, the most of any reporting industry sector. The decline in total dollar coverage went from $36 million to $23 million or a 36 percent drop, compared with a 42 percent decline for all respondents.

Twenty-four percent are considering self-insurance, compared with the overall average of 19 percent.

9. Board Practices and Policies (Table 8)

For the ninth consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents. Although twenty-eight percent report that they hold at least one of these meetings at a branch subsidiary, most meetings are at corporate headquarters.

An outside director of an insurance company devotes an estimated 129 hours annually to board-related business. This is significantly higher than last year's 111 hours, and the 114-hour average for all respondents. The upper quartile average for insurers, however, is 185 hours -- lower than the 196 overall average (Table 8A).

Board chairmen of insurance companies report devoting an average of 184 hours -- more than any other responding group, except for the largest industrials, $5 billion and over.

If compensated on an annual plus per-meeting fee, members of insurers' boards earned an average $136 per hour this year, down from the $148 average reported in 1984.

Twenty-six percent of the insurance respondents reported an outside director resignation during the past year (compared with 32 percent for all respondents), mainly due to retirement. Twenty-nine percent expect a board vacancy during the coming year. This is an improvement over last year's expected vacancy rate of 49 percent.

Insurance respondents continue to select outside directors primarily based on recommendations by the board chairman and board members (each cited by 89 percent) and the use of the nominating committee (reported by 65 percent) (Table 8B).

Broad management experience remains the primary consideration in asking a prospective director to sit on the board (89 percent), followed by personal stature (60 percent). Strong financial skills was cited by 48 percent, and more than any other industry group (Table 8C).

Only 14 percent of insurance company respondents had a prospective director decline an invitation to serve on the board, less than any other responding group, and down from the 20 percent reported last year by insurers (Table 8D). The refusal rate was sharply down from the 35 percent reported in 1981. The time commitment involved continues to be the major reason for a prospect's declining an invitation (57 percent).

Ninety percent of the insurance respondents have mandatory retirement policies. The average retirement age is 67 for inside directors (down from 68 in 1984), 70 for outside directors, and 69 for board chairmen.

10. Issues (Table 9)

When asked to rank the relative importance of various issues facing corporate boards today, financial results placed well above the other issues. Ninety-two percent of insurers ranked financial results first, second or third, up from 82 percent last year. The second most important issue, strategic planning was ranked first, second or third by 60 percent, followed by industry competition, at 39 percent. Day-to-day operations decreased in importance from 39 percent last year to 25 percent in 1985. When asked to rank the most important issue five years from now, again financial results placed first

(65 percent), followed by strategic planning cited by 51 percent and industry competition cited by 28 percent.

* * *

TABLE 1 - PARTICIPATING COMPANIES

Fifty-six of America's major insurance companies participated in our Thirteeth Annual Study.

Size (Assets)	No. of Insurers	%
Under $2 billion	9	16.1%
$2 billion and over	47	83.9%
TOTAL	56	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	21	37.5%
American Stock Exchange	--	--
Over-the-Counter	9	16.1%
Mutual/Private	26	46.4%
TOTAL	56	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	4	11	15
$2 billion and over	3	13	16
Average	3	13	16

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer? Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	75.0%	51.9%
No	23.1%	48.1%
No response	1.9%	---
	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

Function	1981 Insurance Companies	1985 Insurance Companies	1985 All Companies Surveyed
Senior Executive (other companies)	90.0%	84.6%	81.8%
Retired Executive (other company)	65.0%	84.6%	68.2%
Academician	63.3%	69.2%	54.5%
Retired or Previously Employed Corporate Officer	63.3%	56.5%	53.8%
Woman	53.3%	59.6%	45.0%
Attorney (does not provide legal services to the company	38.3%	51.9%	31.5%
Commercial Banker	61.7%	61.5%	30.8%
Former Government Official	26.7%	28.8%	29.6%
Major Shareholder (not officer of the company)	15.0%	28.8%	29.4%
"Professional" Director	15.0%	19.6%	21.2%
Ethnic Minority Representative	21.7%	25.0%	25.4%
Attorney (provides legal services to the company)	28.3%	26.9%	24.9%
Investment Banker	16.7%	30.8%	24.2%
Non-U.S. Citizen	8.3%	5.8%	14.0%
International Executive (American)	5.0%	3.8%	8.7%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	29.0%	26.7%
Senior Executives (other companies)	22.6%	13.3%
Attorneys (do not provide legal services)	19.4%	46.7%
Former Government Officials	9.7%	13.3%
Retired Executives	9.7%	6.7%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1981 Insurance Companies	1985 Insurance Companies	1985 All Companies Surveyed
Audit	98.3%	98.1%	97.2%
Compensation	76.7%	82.7%	82.2%
Executive	91.7%	90.4%	78.2%
Nominating	55.0%	57.7%	59.2%
Finance	65.0%	65.4%	38.2%
Benefits	20.0%	13.5%	36.5%
Public Affairs	18.3%	13.5%	10.6%
Corporate Ethics	15.0%	9.6%	5.9%

5B. What is the composition of each committee?

Committee	Average Inside Directors	Average Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	5	7
Nominating	1	4	5
Finance	2	5	7
Benefits	0	3	3
Public Affairs	1	5	6
Corporate Ethics	1	4	5

5C. How many committee meetings were held during the past twelve months?

Committee	1981 Average No. of Meetings	1984 Average No. of Meetings	1985 Average No. of Meetings
Audit	3	4	3
Compensation	3	4	3
Executive	6	5	6
Nominating	2	2	2
Finance	10	8	13
Benefits	3	2	2
Public Affairs	3	3	4
Corporate Ethics	2	2	3

TABLE 6 - COMPENSATION

6A. Annual plus Per-Meeting Fee (92.0% of the Respondents)

Annual Fee Amount	%
Under $5,000	4.3%
$ 5,000 - $ 6,999	6.5%
$ 7,000 - $10,999	30.4%
$11,000 - $13,999	21.8%
$14,000 and over	37.0%
TOTAL	100.0%
Average Annual Fee	$12,098

PLUS

Amount Per Meeting	%
Under $250	2.2%
$250 - $499	4.3%
$500 - $599	26.1%
$600 - $799	39.1%
$800 and over	28.3%
TOTAL	100.0%
Average Per-Meeting Fee	$625

EQUALS

Total Annual Compensation	%
Under $7,000	4.3%
$ 7,000 - $10,999	10.9%
$11,000 - $13,999	17.4%
$14,000 - $16,999	17.4%
$17,000 - $19,999	17.4%
$20,000 - $24,999	19.6%
$25,000 and over	13.0%
TOTAL	100.0%
Average Total Annual Compensation	$17,490

6B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$17,490	$26,786
Banks & Other Financial Institutions	$17,462	$26,938
Retailers	$22,141	$27,520
Service Companies	$18,751	$27,456
Industrials		
Under $200 million	$14,426	$21,571
$200 million - $399 million	$14,013	$19,088
$400 million - $599 million	$15,492	$19,250
$600 million - $999 million	$19,557	$27,033
$1 billion - $2.999 billion	$21,949	$30,147
$3 billion - $4.999 billion	$24,534	$30,095
$5 billion and over	$26,126	$33,332
Average	$19,544	$27,375

TABLE 7 - ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1985 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	13.3%
$11,000 - $16,999	15.6%
$17,000 - $24,999	24.4%
$25,000 - $29,999	13.3%
$30,000 - $39,999	17.8%
$40,000 and over	15.6%
TOTAL	100.0%
Average	$25,092

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$25,092	$43,500
Banks & Other Financial Institutions	$27,878	$38,709
Retailers	$27,176	$37,650
Service Companies	$26,135	$43,675
Industrials		
Under $200 million	$17,162	$28,438
$200 million - $399 million	$18,604	$29,452
$400 million - $599 million	$18,745	$28,643
$600 million - $999 million	$25,872	$39,133
$1 billion - $2.999 billion	$27,680	$37,589
$3 billion - $4.999 billion	$32,174	$40,929
$5 billion and over	$42,468	$68,747
Average	$27,424	$41,539

TABLE 8 - BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	7.7%
41 to 70	30.8%
71 to 100	15.4%
101 to 130	19.3%
131 to 160	11.5%
161 and over	11.5%
No Response	3.8%
TOTAL	100.0%
Average	129 Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	129	185
Banks & Other Financial Institutions	99	160
Retailers	105	198
Service Companies	103	176
Industrials		
Under $200 million	98	166
$200 million - $399 million	104	198
$400 million - $599 million	108	182
$600 million - $999 million	99	159
$1 billion - $2.999 billion	116	202
$3 billion - $4.999 billion	132	219
$5 billion - and over	145	236
Average	114	196

8B. How are outside directors located for the board?

	%
Recommended by chairman	88.5%
Recommended by board members	88.5%
Nominating committee	65.4%
Recommended by other corporate officers	34.6%
Referred by executive acquaintances	19.6%

8C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Broad Management Experience	88.5%
Personal Stature	59.6%
Strong Financial Skills	48.1%
Specific Industry Experience	36.5%

8D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1984	% 1985
Yes	19.6%	13.7%
No	74.5%	86.3%
No Response	5.9%	--
TOTAL	100.0%	100.0%

TABLE 9 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	58.5%	88.5%	92.3%
Strategic planning	24.0%	46.2%	59.6%
Industry competition	6.0%	15.4%	38.5%
Day-to-day operations	6.0%	10.9%	25.0%
Financing/Capitalization	-	-	19.2%
Managerial succession	6.0	11.5%	15.4%
Mergers/Acquisitions	-	3.8%	11.5%
Government relations	2.3%	3.8%	7.7%
Executive compensation	-	1.9%	7.7%

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